Farm Credit Administration

1995 Annual Report on the Financial Condition and Performance of the Farm Credit System

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Message From the Chairman

On behalf of the Farm Credit Administration Board, I am pleased to present the 1995 Annual Report on the Financial Condition and Performance of the Farm Credit System.

During 1995, the financial condition of the Farm Credit System improved for the eighth consecutive year. Earnings were more than $1 billion for the third straight year, increasing 16 percent to $1.17 billion for the year ended December 31, 1995. The System's overall capital position also continued to improve. Total capital grew 9.8 percent to $9.86 billion, rising from 13.5 percent of total assets at year-end 1994 to 13.8 percent at year-end 1995.

Total loans of System institutions increased 7.2 percent to $58.6 billion. As important, however, was the continued improvement in the quality of the loan portfolio. Nonperforming loans represented less than 2 percent of the total portfolio. At year-end, the delinquency rate stood at less than 1 percent of the total portfolio.

The Farm Credit Administration will continue to provide a regulatory environment that will ensure Farm Credit System institutions operate in a safe and sound manner, while at the same time providing borrowers with dependable sources of competitively priced credit and financial services.

Marsha Pyle Martin
Chairman and Chief Executive Officer
June 28, 1996

Farm Credit Administration Organization

Farm Credit Administration

The Farm Credit Administration (FCA or Agency) is an independent agency in the executive branch of the U.S. Government responsible for regulating and examining the banks, associations, and related entities of the Farm Credit System (FCS or System) and the Federal Agricultural Mortgage Corporation (Farmer Mac). Initially created by an Executive order of President Franklin D. Roosevelt in 1933, the Agency now derives its powers and authorities from the Farm Credit Act of 1971, as amended (Act). FCA promulgates regulations to implement the Act and examines FCS institutions for compliance with applicable statutes, regulations, and safe and sound banking practices. If an institution is found to be in violation of these statutes or regulations or is operating in an unsafe or unsound manner, the Agency has several enforcement options at its disposal to bring about corrective action. In addition, FCA annually examines the National Consumer Cooperative Bank (NCB) and its affiliate, the NCB Development Corporation, and presents the reports of examination to the banking committees of the U.S. Senate and the U.S. House of Representatives.

The Agency has its headquarters in McLean, Virginia. FCA also has regional or field examination offices at its headquarters location and in Marietta, Georgia; Denver, Colorado; Dallas, Texas; Sacramento, California; St. Louis, Missouri; and Bloomington, Minnesota.[1]

Farm Credit Administration Board

FCA is managed by a full-time, three-person board appointed by the President with the advice and consent of the U.S. Senate. FCA Board members serve a 6-year term and may not be reappointed after serving a full term or more than 3 years of a previous member's term. The President designates one of the members as Chairman of the Board. The Chairman also serves as the Agency's chief executive officer. One position on the FCA Board is currently vacant.[2]

Marsha Pyle Martin was appointed to the FCA Board and designated Chairman and Chief Executive Officer by President Clinton on October 17, 1994, to a term that expires October 13, 2000. She brings to her position 34 years of experience in agriculture and agricultural finance. The Texas native joined the Federal Intermediate Credit Bank (FICB) of Texas in 1970 and in 1979 earned the distinction of being the first woman appointed to a senior officer position. During her career with FICB of Texas and the Farm Credit Bank (FCB) of Texas, she gained broad management experience, providing leadership and direction for the bank's corporate relations, legal, operations and supervision, management information, human resources, marketing, and public and legislative affairs departments. She has held leadership positions with various agricultural councils and advisory committees in the State of Texas, including the Texas Agricultural Loan Mediation Program Advisory Board, the Texas Department of Commerce Credit Advisory Committee, the board of directors of Texas Agricultural Lifetime Leadership, and the Texas Agricultural Cooperative Council. In 1990, she received the Cooperative Communicators Association's highest honor, the H.E. Klinefelter Award, in recognition of her distinguished contributions to cooperative communications. In 1995, she was honored by the board of directors of FCB of Texas as the individual who had made the greatest contribution to agriculture and farm credit in Texas and was named to the Academy of Honor in Agriculture. She holds a B.A. from Texas Woman's University and an M.S. from Texas A&M University.

1. On April 2, 1996, FCA announced plans to close field examination offices in Marietta, Georgia, and St. Louis, Missouri, by the summer of 1997.
2. Gary C. Byrne, who was appointed to the FCA Board by President Bush on December 3, 1991, resigned on March 31, 1995. His term on the Board would have expired May 21, 1996.

Doyle L. Cook was appointed to the FCA Board by President Clinton on October 5, 1994, to a term that expires May 21, 1998. He brings to his position 33 years of experience in agricultural lending, 19 of which were with various FCS institutions. Preceding his appointment to the FCA Board, Mr. Cook served as president and chief executive officer of the FCB of Spokane, an active participant on various committees of the banks of FCS, a director of Farmer Mac, and a member of the Chicago Mercantile Exchange Lender Advisory Committee. Previously, he served as president and chief executive officer of the Farm Credit Services of Mid-America, Agricultural Credit Association (ACA); senior vice president for credit for FICB of Texas; and senior vice president of FICB of Louisville. He began his career with Ralston Purina, where he worked in credit, marketing, finance, and general management for 13 years before joining FCS. Mr. Cook, a native of Star City, Arkansas, holds a B.S. in agricultural business and an M.S. in agricultural economics from the University of Arkansas.

Officials

David C. Baer	Chief Operating Officer[3]
William L. Robertson	Acting Chief Examiner and Acting Director, Office of Examination[4]
Jean Noonan	General Counsel
Larry W. Edwards	Director, Office of Resources Management
Michael L. Young	Director, Office of Special Supervision and Corporate Affairs
Deborah A. Dawson	Acting Director, Office of Congressional and Public Affairs[5]
Eldon W. Stoehr	Inspector General
Suzanne J. McCrory	Director, Office of Secondary Market Oversight
Floyd J. Fithian	Secretary to the FCA Board
Gail Hill	Manager, Equal Employment Opportunity

3. Dorothy L. Nichols served as Chief Operating Officer until November 12, 1995.
4. David C. Baer served as Chief Examiner and Director, Office of Examination, until November 12, 1995.
5. Cheryl Tates Macias served as Director of the Office of Congressional and Public Affairs until August 1, 1995.

Overview of Organizations

Farm Credit System

The Farm Credit System (FCS or System) is a network of borrower-owned cooperative financial institutions and related service organizations that serve all 50 States and the Commonwealth of Puerto Rico. These institutions specialize in providing credit and related services to farmers, ranchers, and producers or harvesters of aquatic products. Loans may be made to finance certain processing and marketing activities of these borrowers. Loans may also be made to rural homeowners (for housing), certain farm-related businesses, and agricultural, aquatic, and public utility cooperatives.

On January 1, 1996, there were 236 System banks and associations, including the following:

- Six Farm Credit Banks (FCBs), which make direct long-term real estate loans through 70 Federal Land Bank Associations and provide loan funds to direct lender associations—66 Production Credit Associations (PCAs), 55 Agricultural Credit Associations (ACAs), and 32 Federal Land Credit Associations (FLCAs). PCAs make short- and intermediate-term loans; ACAs make short-, intermediate-, and long-term loans; and FLCAs make long-term loans.
- One Bank for Cooperatives (BC), which makes loans to agricultural, aquatic, and public utility cooperatives and to other persons or organizations owned by or having transactions with such cooperatives.
- One Agricultural Credit Bank (ACB), which has the combined authorities of an FCB and a BC and provides loan funds to five ACAs. In addition, both the BC and the ACB are authorized to finance U.S. agricultural exports and to provide international banking services for farmer-owned cooperatives.

The following FCS entities are also examined and regulated by the Farm Credit Administration (FCA):

- The Federal Farm Credit Banks Funding Corporation (Funding Corporation) is an entity owned by FCS banks that markets the securities the banks sell to raise loan funds.
- The Farm Credit System Financial Assistance Corporation (FAC) was chartered in 1988 to provide needed capital to the System through the purchase of preferred stock issued by System institutions that received financial assistance authorized by the FCS Assistance Board.
- The Federal Agricultural Mortgage Corporation (Farmer Mac) guarantees the timely payment of principal and interest on securities representing interests in, or obligations backed by, pools of agricultural real estate loans.
- Service corporations organized under Section 4.25 of the Farm Credit Act of 1971, as amended, include the following:
  - The Farm Credit Finance Corporation of Puerto Rico uses tax incentives offered to investors to provide low-interest funding (other than that from the Funding Corporation) to eligible borrowers in Puerto Rico.
  - The Farm Credit Leasing Services Corporation provides equipment leasing services to eligible borrowers, including agricultural producers, cooperatives, and rural utilities.
  - Farm Credit Financial Partners, Inc., provides support services to the associations affiliated with CoBank, ACB.
  - AgCo Services Corporation provides management information systems and electronic data processing services to CoBank and AgAmerica, FCB, and its affiliated associations.

- The FCS Building Association (FCSBA) is an FCA-chartered service corporation formed in 1981 by FCS banks. FCSBA is responsible for acquiring, managing, and maintaining facilities to house the headquarters and field offices of FCA. Although FCSBA is owned by FCS banks, exclusive oversight of its activities is vested in the FCA Board.

Farm Credit System Insurance Corporation

The Farm Credit System Insurance Corporation (FCSIC) was established by the Agricultural Credit Act of 1987 to ensure the timely payment of principal and interest on insured notes, bonds, and other obligations issued on behalf of FCS banks and to act as conservator or receiver of FCS institutions. By ensuring the repayment of FCS securities to investors, FCSIC helps maintain a dependable source of funds for farmers, ranchers, and other FCS borrowers. FCA Board members serve ex officio as the board of directors for FCSIC; however, the FCA Board Chairman cannot serve as the FCSIC Board Chairman.

Economic and Agricultural Environments[1]

The U.S. agricultural credit system functions at the intersection of two economic markets, one financial and the other agricultural. During 1995, the broad spectrum of interest rates declined over most of the year, benefiting the capital-intensive farm economy. Weather problems in some parts of the United States, however, led to reduced crop production and soaring prices, with divergent effects on the crop and livestock sectors.

General Economic Setting
A tentative economy in 1995 was marked by lackluster growth and uncertainty regarding its future direction. Real gross domestic product averaged 2.1 percent higher than in 1994, and inflation, measured by the Consumer Price Index, was 2.8 percent (year-over-year average) for the year. Industrial capacity utilization slipped somewhat for the year, while the civilian unemployment rate generally held at the 5.4 to 5.6 percent level.

A stable monetary policy and congressional efforts to get the Federal budget deficit under control during 1995 contributed to declining short- and long-term interest rates. The 3-month Treasury bill rate dropped from 5.81 percent in January to 5.16 percent in December. During that same period, the long-term 30-year Treasury bond yield declined from 7.85 percent to 6.06 percent. Interest rates on farm loans also declined during 1995, although, on average, farm interest rates were appreciably higher in 1995 than 1994, particularly at commercial banks.

Commodity Developments
Poor weather conditions in 1995 resulted in a sharp drop in the production of field crops and oilseeds. In 1995, declines in the production of corn, wheat, rice, and soybeans were 27 percent, 6 percent, 12 percent, and 14 percent, respectively. The short U.S. crop, when combined with strong domestic and export demand, caused projected season-end U.S. grain stocks to drop to the lowest levels in two decades.

The tight grain supply situation in the 1995–1996 marketing year means that at least normal yields are needed in 1996 to avert a serious shortage and skyrocketing prices. The tight grain supply plus guaranteed farm program transition payments could lead to an overheated farmland market in the Midwest. The implications are profound for livestock producers, who are already experiencing stress caused by high feed costs.

High feed grain and oilseed prices in 1995 put varying degrees of pressure on the profit margins of the entire spectrum of livestock producers. Cattle feeders responded to the sharp increase in feed costs by offering lower prices for feeder cattle. This depressed the returns of cow/calf operators and provided ample incentive to hold off marketing lighter weight animals whose price was heavily discounted at the feedlot. The hog sector is generally populated by small, higher cost operations that may be one of two or more enterprises on a farming operation and by large, low-cost vertically integrated operations. The recent rise in feed costs may force more of the small, higher cost producers out of business. The large, more efficient operations are better able to absorb these cost increases, due in part to their use of hedging techniques to offset soaring feed costs. The result will likely be an acceleration of the structural shift within the hog sector toward large, vertically integrated operations.

Returns in the poultry sector were also squeezed by high feed costs. Although turkey producers reported losses last fall, producers of broilers and eggs registered positive returns because of high wholesale prices.

U.S. agricultural exports jumped 24 percent in 1995 to $54.1 billion, the highest level in 14 years, with most of the increase going to Asian countries. The commodities that accounted for most of the leap in exports were grains and feeds, oilseeds and oilseed products, and meat and poultry products.

Factors influencing the sharp rise in agricultural exports include reduced corn supplies in China and strong demand for corn and cotton abroad. China's retreat as a corn exporter allowed the United States to expand its exports to Asia. Also, strong world income growth in 1995

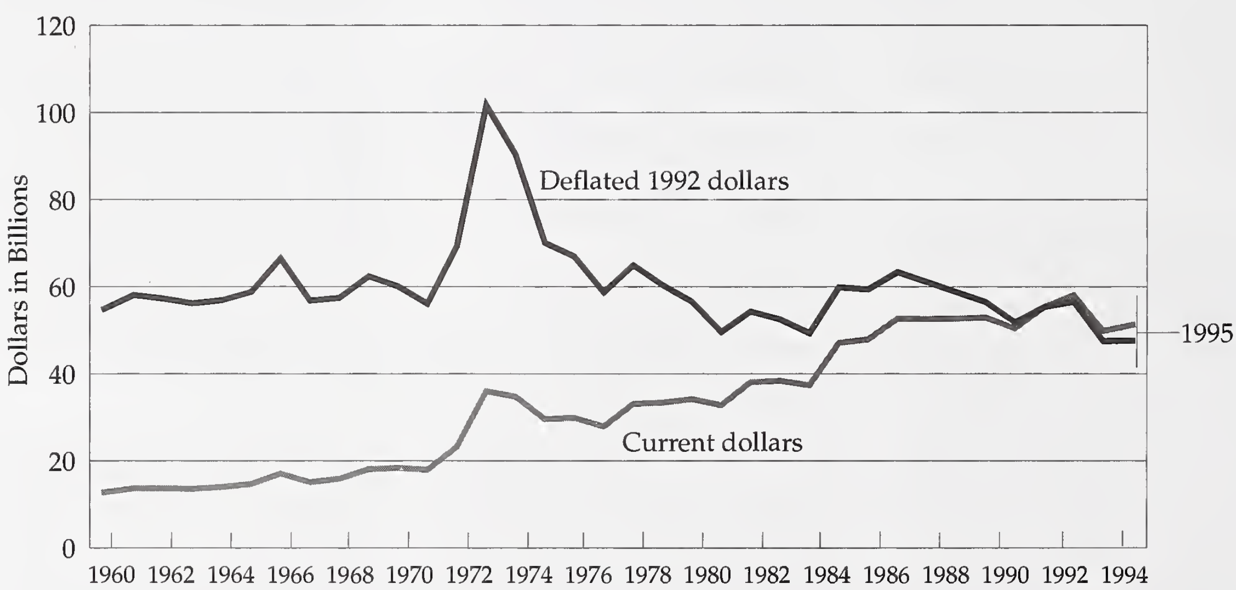
1. The information presented in this section is based on calendar year 1995.

combined with a relatively weak U.S. dollar helped position the United States for the surge in farm exports.

Net Farm Income Measures
Farm income measures continued to show a mixed pattern. Net cash income was up, with cash receipts rising more than cash expenses.[2] However, on an accrual basis, net farm income declined because of the short 1995 crop. This decline resulted in a substantial reduction in inventories, as compared with a large buildup of inventories in 1994 following a record large harvest.

Net cash income, which measures the cash available to service debt or substitute for additional debt, increased approximately $1.4 billion from 1994 to $51 billion in 1995 (Figure 1). A healthy increase in crop receipts more than offset slightly higher cash expenses and somewhat lower livestock receipts and Government payments. Crop receipts rose as farmers sold inventories at significantly higher market prices. Government payments were down $1.7 billion; a major component of this decrease was smaller deficiency payments on the 1994 corn crop—which were received in 1995. Cash expenses were up, with much of the pressure coming from purchased feeds, fertilizer, and interest expenses. Interest expenses were pushed up by a modest increase in total farm debt outstanding as well as higher average interest rates in 1995 than in 1994.

Figure 1
Net Cash Income from Farming, 1960–1995
(Current and Deflated Dollars)



Source: U.S. Department of Agriculture, Economic Research Service: National Financial Summary-1993, ECIFS 13-1, Dec. 1994, and Agricultural Outlook, AO-227, March 1996. Data for 1995 are forecasts.

2. Net cash income is a cash accounting of commodity sales, Government payments, farm-related income, and the operating expenses associated with producing that revenue. Neither depreciation nor capital expenditures are deducted.

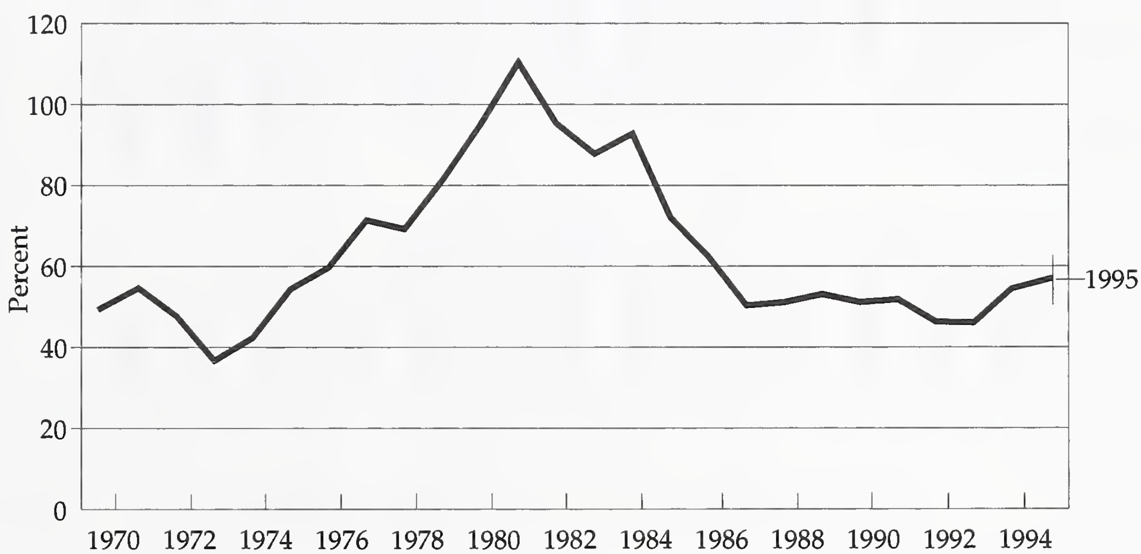
In contrast, net farm income declined 17.3 percent to $38.6 billion in 1995.[3] Net farm income is an accrual measure of the agricultural economy, eliminating the effects of inventory change and providing a better measure of actual production during the year. The decline resulted from a sharp drop in 1995 crop production coupled with a slight drop in livestock receipts, as cattle prices weakened relative to 1994.

Farm Sector Financial Ratios Under Pressure in 1995

Since the late 1980s, farmers as a whole have had the capacity to service debt beyond their current borrowing levels. This financial strength is demonstrated by a substantial improvement in their overall financial ratios since 1985–1986. Although ratios remain generally favorable, this trend ended in 1994. Farm debt grew by more than $4 billion (2.9 percent) in 1995 to $150.7 billion, the third consecutive year of farm sector debt growth. Farm debt grew in 1995 owing to an increase in demand, particularly for non-real estate debt. Demand for farm machinery and equipment and greater planted acreage led to an increase in non-real estate debt of 4.2 percent in 1995.

The agricultural sector's use of its debt repayment capacity (actual business debt expressed as a percentage of maximum feasible business debt) increased from 54.4 percent in 1994 to nearly 57 percent at year-end 1995, its highest level since 1986 (Figure 2). Two liquidity ratios (farm business debt service coverage and times-interest-earned ratio) also weakened as a result of the higher debt level and interest rates in 1995. These latter ratios indicate a greater burden on the income generating capacity of the farm sector to service debt.

Figure 2
Use of Farmers' Credit Capacity, 1970–1995



Source: Economic Research Service, U.S. Department of Agriculture.
Note: Use of credit capacity is computed as the ratio of actual debt to debt repayment capacity. Capacity is based on the debt level that could be serviced with current net cash income before interest.

3. Net farm income is an accounting of farm income and expenses on an accrual basis. Thus, net farm income has adjustments for inventory changes (to reflect only the current year's output), depreciation as an expense, and recognition of other noncash income and expense items. Overall, income tends to be more stable when expressed on a cash basis, because it partly measures how farmers manage to average their sales and expenses from more than one production year.

Other sector financial ratios remained firm—the solvency ratios (debt/asset and debt/equity) were largely unchanged. An increase of about $23 billion in farm asset values accompanied the $4 billion growth in farm business debt during 1995. The two solvency ratios changed very little. Looking ahead, the prospect of modest asset appreciation and further modest growth in farm business debt suggest stability for the solvency ratios during 1996.

Implications of the Federal Agriculture Improvement and Reform Act of 1996

The Federal Agriculture Improvement and Reform Act of 1996 (1996 Farm Act), which was signed into law on April 4, 1996, made major reforms to the agricultural commodity programs by ending supply controls, delinking Government payments from production decisions and market prices, and enabling farmers to move to a more market-based system.

The 1996 Farm Act will provide as much as $5 billion of additional revenue to program producers in 1996 and a few billion more in 1997 compared with what would have occurred under a continuation of the 1990 Farm Act provisions. With the current commodity outlook, it will be several years before farm program outlays under the 1996 Farm Act drop below those from a continuation of the previous law. Thus, from a sector revenue standpoint, the 1996 Farm Act is favorable into the foreseeable future. However, uncertainty will also be greater because producers will be dependent on potentially more volatile markets.

Under the 1996 Farm Act, consistently more acreage is likely to be planted each year, and there could be considerable shifting among crops depending on relative market prices. While positive overall, this shifting could have adverse consequences for owners and businesses (including farm cooperatives) that produce, market, and process certain specialized crops, especially in regions with higher costs.

Borrowers will need to adjust quickly to the new market environment and find ways to manage increased risk. They will also need to develop, or otherwise acquire, risk-reducing strategies and tools (such as production contracts, yield futures, and revenue insurance) to obtain favorable loan terms. This is an opportunistic environment for better managers. Weaker managers will be challenged to remain in business and will likely need help in order to remain viable—or will need to exit before they lose substantial equity and face a forced liquidation.

Farm Debt Markets and Lender Shares[4,5]

During 1995, the Farm Credit Banks (FCBs) and their affiliated associations and the associations affiliated with CoBank had their first significant growth in overall farm loan volume since 1982. More notably, the U.S. Department of Agriculture's (USDA's) preliminary year-end estimates show that 1995 marked the first year since 1981 that the Farm Credit System's outstanding farm loans grew at a faster pace (or in declining years, declined less) than those of commercial banks. Among all agricultural lenders, farm business debt grew 2.9 percent with a nearly 2 percent increase in the Nation's real estate secured portion (to $79 billion) and a 4.2 percent growth in the non-real estate portion (to near $72 billion).

With its growth in loan volume, the Farm Credit System (FCS or System) gained 0.3 percent in market share to an estimated 24.7 percent. As in 1994, the FCS growth was all in non-real estate secured debt (see page 15, "Farm Credit System Performance Report"), which produced a projected 1.8 percent gain in share to 18.0 percent. This gain more than offset the projected drop of nearly 1 percent in share of real estate secured debt. The FCS share of the real estate market segment dropped from

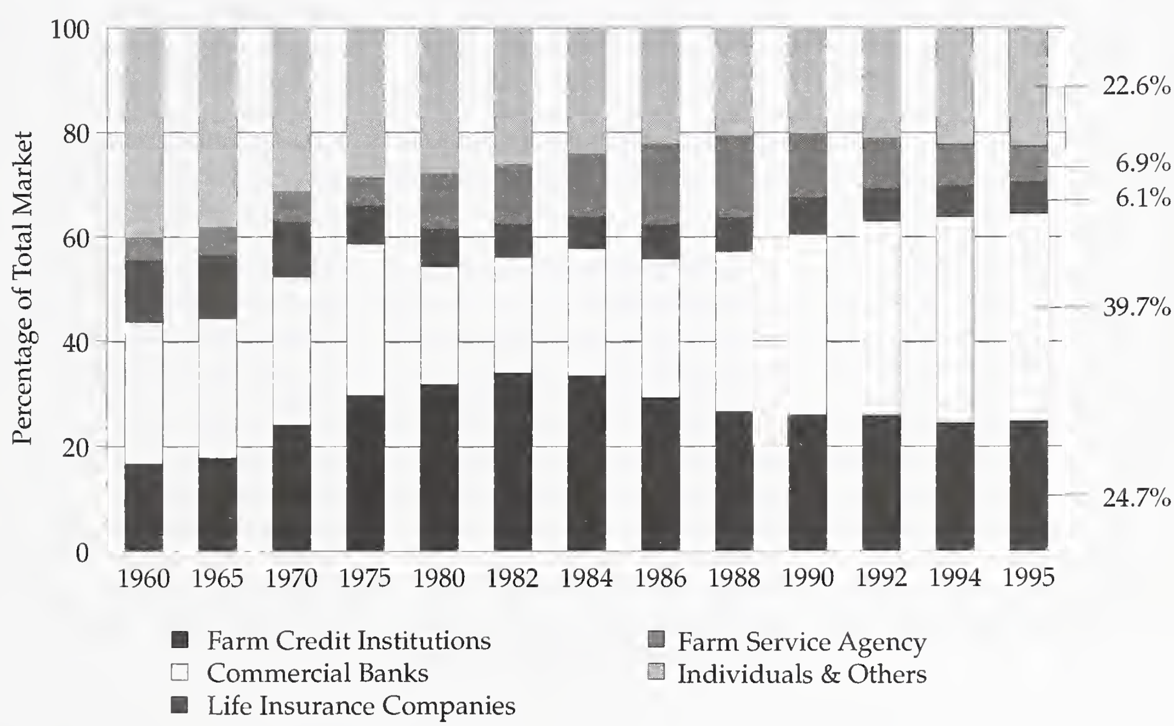
4. This section and the accompanying chart on market share (Figure 3) are based on the U.S. Department of Agriculture's (USDA's) preliminary year-end 1995 estimates of farm debt by lender. For the most part, these estimates are based on loan growth during the first three quarters, not year-end reports by lenders.
5. USDA's estimate of FCS's loan volume excludes loans held by the Bank for Cooperatives and certain other FCS loans (e.g., rural home loans plus marketing and processing loans). USDA's farm sector debt estimates are for farm business operations only; any indirect FCS financing to farmers through supply cooperatives would be included in trade credit. (The latter would be in the "individuals and others" category in Figure 3.)

31.7 percent to 30.8 percent according to USDA's year-end volume estimates.

In the non-real estate segment, FCS share peaked in the mid-1970s at about 27 percent, dropped to 14.2 percent at year-end 1988, and then edged irregularly upward to 16.2 percent by the end of 1994. In contrast, the FCS share of the real estate debt segment did not peak until the end of 1984, at 43.7 percent, and it has dropped steadily through 1995 to a current level of 30.8 percent.

Figure 3 illustrates the 35-year pattern in overall farm debt market share, with data plotted at 5- and 2-year intervals. The System has grown in periods such as the late 1970s to the early 1980s, when commercial bank liquidity was tight, and has contracted in volume and market share when commercial banks' funds were more plentiful, as in recent years. While the System's share has fallen, it is larger than it was 30 years ago. Recent Federal Reserve Bank surveys find that loan-to-deposit ratios in rural commercial banks have climbed to levels not seen since the credit crunch in 1979. However, such banks now have more sources of funds and are less dependent on deposits for funds, although the alternative funds are generally more costly.

Figure 3
Market Shares of Farm Business Debt
Every 5 Years, 1960–1980; Every 2 Years, 1980–1994



Source: USDA, Economic Research Service: National Financial Summary-1993, ECIFS 13-1, Dec. 1994, and Agricultural Income and Finance Situation & Outlook, AIS-60, Feb. 1996. Data are as of December 31. Data for 1995 are preliminary estimates.
Note: USDA's Farm Service Agency was formerly the Farmers Home Administration; "individuals and others" is mainly trade credit and seller financing of real estate.

As a group, lenders competing with FCS experienced market share changes mirroring those of FCS, but the changes differed among the individual competitors. Commercial banks had a small overall gain in market share to 39.7 percent, with a gain (for the 13th straight year) in the share of the real estate secured portion but a drop in the share of non-real estate secured farm loans during 1995. At year-end 1995, commercial banks held 28.4 percent of real estate secured loans, a close second to FCS and up from 27.1 percent at year-end 1994 and from only 7.4 percent at the end of 1982. Their dominance in the non-real estate loan market segment backed off to 52.1 percent from 53.1 percent at year-end 1994. By comparison, their lead position at the end of 1982 was 39.5 percent.

Life insurance companies have held about 11 to 12 percent of the farm real estate secured debt since the early 1980s. This amount represents about a 6 to 7 percent share of the overall farm business debt. Seller financing of real estate and merchant/dealer trade credit for non-real estate lending gained in volume in 1995 and roughly maintained market shares, rounding out both sides of the respective markets with shares of 22 to 23 percent. In the longer perspective, seller financing of real estate is down about one-third since late 1979, when it accounted for 32.2 percent and was second only to FCS. On the other hand, short-term trade credit has held virtually steady, with only a slight dip during the mid- to late 1980s.

The institutional lender that experienced the largest overall decline in market share of lending in 1995 (from 7.8 percent to 6.9 percent) was again USDA's Farm Service Agency (FSA), formerly the Farmers Home Administration. FSA lending continued to be replaced by guarantees of loans made by other lenders. FSA dropped 1.2 percentage points of share in the non-real estate market (to 7.5 percent) and 0.5 percentage points in real estate share (to 6.5 percent). Both are down sharply from their respective plateaus of near 22 and 11 percent from 1986 to 1988.

Potential Risks in the Farm Finance Outlook

As a safety and soundness regulator, the Farm Credit Administration (FCA or Agency) acts on behalf of customers/shareholders of FCS lending institutions and investors in FCS debt securities. Through its regulatory, enforcement, and examination functions, FCA monitors and helps control the risks to these stakeholders. In carrying out these functions, the Agency has identified several risks that bear watching over the next few years. Some of these risks are discussed briefly below.

Changing Farm Policy—Historic changes to U.S. farm policy are now in place. Although fixed transition payments to producers will boost farm income in the near term, farm income could decline with scheduled reductions in future transition payments. Additionally, commodity prices could fall as grain stocks are rebuilt. Overall, uncertainty will be greater because producers will be dependent on potentially more volatile markets.

The delinking of benefits from market prices means a riskier lending environment since Government support no longer varies to offset low market prices. This risk could motivate lenders to strengthen their loan underwriting standards. There will be strong competition to gain and retain lending relations with well-managed producers who are financially able to withstand the increased risks. Credit quality among the less well managed, higher cost producers is likely to deteriorate over time. However, the new legislation is not expected to contribute to this situation in the near term.

Over the next few years, the 1996 Farm Act may contribute to an already overheated farm economy, most notably the land markets in the major grain producing areas. If current export markets and livestock production continue to grow, commodity grain and oilseed prices will likely remain strong for several years, and they will be coupled with windfall program payments. This windfall may boost farmers' expectations for future income, causing them to bid up farmland prices, particularly in areas with a concentration of farm program crops. Several years later, however, market conditions could weaken just when the program payments are scheduled to taper off, leading to increased financial stress in the farm sector.

FCS Loan Growth—The FCS's minimal growth in farm lending in recent years is due to relatively slow growth in the total farm credit market since 1990 and (since the mid-1980s) a loss of market share to a very competitive commercial banking sector and nontraditional lenders. A continued no-growth or slow-growth pattern represents a risk to the long-term viability of FCS. This is especially true if profit margins are squeezed by competitive pressures, higher interest rates, and increasing operating cost. However, over the past 2 years, System short- and intermediate-term loans to agricultural producers increased by 19 percent and domestic loans to cooperatives increased by 36 percent. It remains to be seen whether these recent growth trends will represent a cyclical turnaround in System loan growth.

Competitive Pressures and the Drive to Gain Market Share—FCS institutions face intense competitive pressures from both traditional farm lenders such as commercial banks and nontraditional lenders such as major input suppliers (e.g., John Deere, Pioneer Hi-Bred). Although high loan-to-deposit ratios at commercial agricultural banks may provide some opportunities for FCS institutions to gain loan volume, competition will likely remain stiff for the best quality loans. In addition to their traditional credit programs, input suppliers now offer customers general lines of credit, which are designed to finance the sale of their products. Also, the new authorities recently granted to Farmer Mac could result in an even greater competitive environment for farm real estate loans.

There is a risk that FCS institutions and their competitors will engage in an income-squeezing drive to gain market share. Although adding volume is an effective way to increase operating efficiency, risk to FCS may increase if this situation leads to serious equity erosion in the face of a riskier lending environment. Conversely, if FCS institutions keep lending spreads too high, the likelihood of healthy growth is reduced.

International Trade Outlook—Agricultural exports have become vital to the economic well-being of the U.S. farm sector. Typically, exports account for more than half of the U.S. wheat crop, up to half of the rice and cotton crop, and about one-third of the soybean crop. About 25 percent of the U.S. fresh market supply of apples, grapes, pears, grapefruit, and oranges is expected to be exported in 1996. A rapidly growing share of U.S. poultry production (about 14 percent in 1995) is exported; and in 1996, for the first time, the United States is expected to become a net exporter of red meats. Yet the year-to-year value of farm exports is subject to diverse and unpredictable forces. Economic conditions, weather, disease, and pestilence around the world significantly affect both supply and demand and, in turn, determine whether the United States will find a strong or weak international market. Farm exports are also influenced by U.S. foreign policies such as the

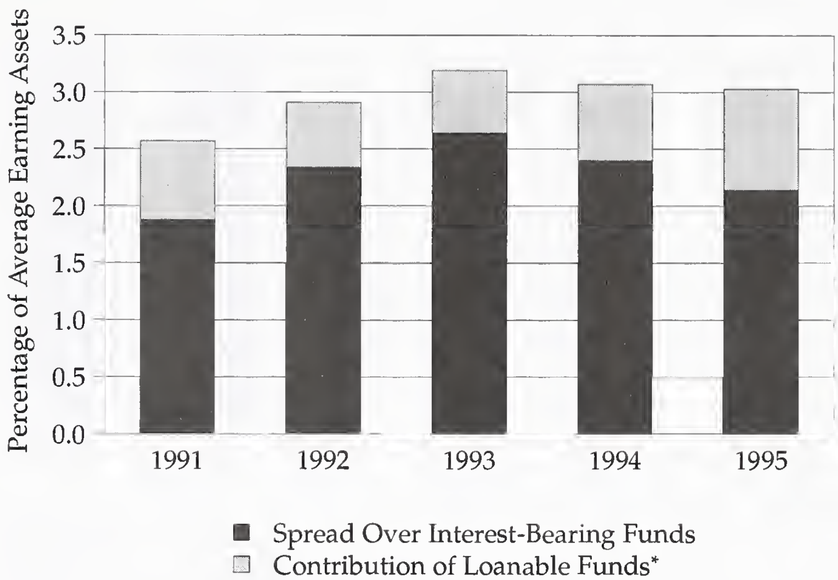
most-favored-nation status of China, which is perennially under scrutiny due to human rights issues in that country. U.S. monetary policy affects interest rates and the foreign exchange rates for the dollar. These developments can have a profound influence on the price of U.S. exports overseas as well as on farmland values and economic activity in the United States and elsewhere. Portfolio concentrations in FCS, which are sensitive to the vagaries of export markets, must be managed according to their inherent risk.

Shift Toward Contract Production—Increased use of production contracts has shifted the nature and exposure of different parties to price and production risks within agriculture. Asset ownership, risks, and risk sharing for agricultural producers could be redistributed among crop producers, input suppliers, livestock producers, processors, and others in the agricultural production system. These arrangements are also changing the financial needs of the customers, which will likely affect the sources of such financing.

Farm Credit System Performance Report[1,2]

Farm Credit System (FCS or System) banks and associations continued an 8-year trend of improving financial condition and performance. Earnings were more than $1 billion for the third straight year. While most measures of asset quality continue to improve, the volume of loans 30 or more days delinquent (and still accruing interest) rose slightly for the second straight year. However, the proportion of these delinquent loans in the System's portfolio remains low, and FCS's ability to absorb risk increased as capital grew, primarily through retained earnings.

Figure 4
Net Interest Margins, 1991–1995



* Loanable funds are owned (interest-free) funds that support interest-earning assets.
Source: Federal Farm Credit Banks Funding Corporation Annual Information Statements.

Earnings

Net earnings for 1995 were $1.17 billion, up 16 percent from 1994 earnings. Reasons for the increase included gains on the sale of investments in 1995 (versus losses in 1994) and significantly fewer costs associated with mergers and restructuring in 1995 than in 1994. These positive influences were offset by an increase in the provision for income taxes and a loss on the early retirement of high-cost debt.

Net interest income was up 3.2 percent over 1994 to just over $2 billion, even though interest spreads were down. Net interest income rose from an increase in interest earning assets of 7.5 percent.

The net interest margin fell slightly from 3.07 percent of average earning assets in 1994 to 3.03 percent in 1995 (Figure 4).

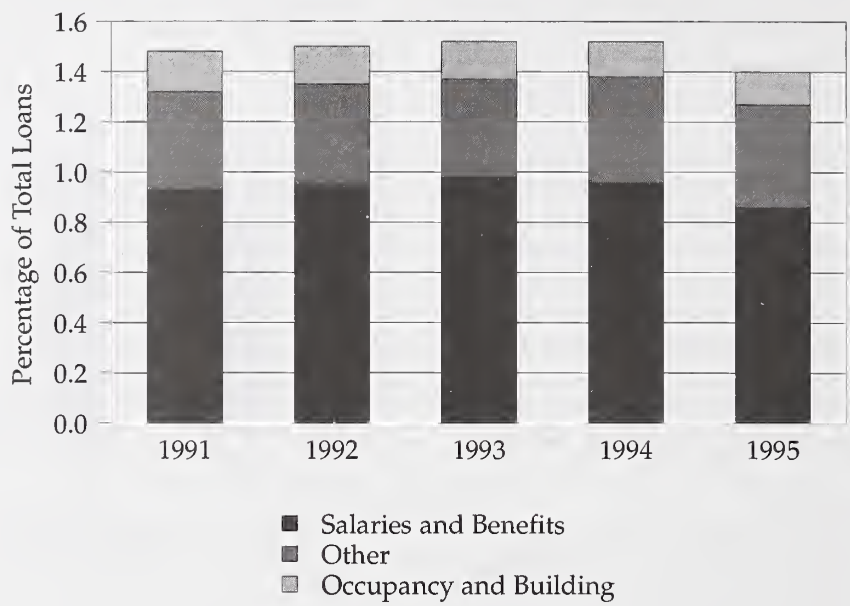
Net interest spreads dropped 26 basis points[3] as loan pricing pressures prevented the System from raising rates on loans to keep pace with the increase in their cost of funds. On the other hand, the System increased its loanable funds position 9.7 percent, which partially offset the effect of the narrower spread on the net interest margin.

1. The information presented in this section includes all Farm Credit Banks, the Agricultural Credit Bank and their affiliated associations and the Bank for Cooperatives. References made to individual districts include financial data for the district bank and its affiliated associations, adjusted to eliminate transactions between institutions in the district. The Federal Agricultural Mortgage Corporation (Farmer Mac) and the Farm Credit Leasing Services Corporation (Leasing Corporation) are not included in this analysis. Separate analyses of Farmer Mac and the Leasing Corporation follow. The data used in the overall FCS analysis were provided by the FCS institutions to the Federal Farm Credit Banks Funding Corporation and is based on publicly available information. The data have been adjusted to eliminate transactions between FCS institutions.
2. The material on the Farm Credit System and Farmer Mac in this section is based on calendar year 1995.
3. A basis point is one one-hundredth of 1 percent.

Results for individual banks and their affiliated associations were mixed. The AgFirst, Texas, and Wichita districts were able to increase their net interest margins. The AgAmerica, AgriBank, Western, and CoBank districts and the St. Paul Bank for Cooperatives (BC) all saw a decline in their net interest margins. In the Western District, a reduction in interest income from nonaccrual loans caused the largest decline (29 basis points). The Western District sold approximately $47 million in nonaccrual loans to an outside party and worked out other nonaccrual loans, causing a 60-percent reduction in interest income from its declining volume of nonaccrual loans.

For the second year, the System continued to reduce overhead as efficiencies were realized from the merger and restructuring activities that have taken place. Operating efficiency (operating expenses as a percentage of total loans) improved dramatically, from 1.52 percent of loans in 1994 to 1.40 percent in 1995 (Figure 5). Operating expenses, at $820.5 million, were down slightly from 1994. Salaries and employee benefits declined 4.2 percent from 1994; occupancy and equipment expenses declined 2.5 percent.

Figure 5
Operating Expenses as a Percentage of Loans, 1991–1995



Source: Federal Farm Credit Banks Funding Corporation Annual Information Statements.

The AgFirst, Wichita, and CoBank districts experienced the largest percentage declines in operating expenses (3.8, 3.7, and 16.8 percent, respectively) and in operating expenses as a percentage of total loan volume (17, 10, and 25 basis points, respectively). The AgFirst and CoBank districts were created through mergers in 1995. These mergers resulted in efficiencies through staff reductions in both districts. The Farm Credit Bank (FCB) of Wichita reorganized its staff, which resulted in a 3.7-percent decline in salaries and employee benefits and a 15.8-percent decline in occupancy and equipment expenses.

In 1995, the System added $36 million to the allowance for loan losses, $12 million less than in 1994. Except for the Western District, which reversed $27 million from its allowance-for-loan-loss account, all other districts and the St. Paul BC added provisions to the allowance account. While most districts were responding to an increase in loan volume, several recognized the potential risk in certain commodities prevalent in their territories.

Enhancements to income included a $3.6 million gain on the sale of investments in 1995 (in the AgFirst and CoBank districts) versus a $24.3 million loss in

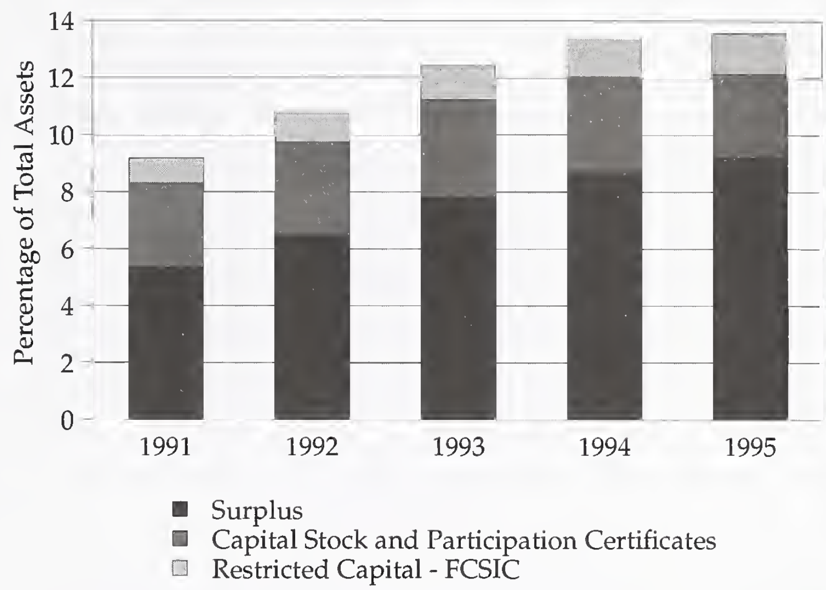
1994. Additionally, the System realized $8.3 million more in income earned as assets in the Insurance Fund grew from $890.6 million to just over $1.0 billion. Also helping to enhance income was a reduction in merger and restructuring costs from $72.4 million in 1994 to $10.8 million in 1995.

Offsetting these increases to net income were a $10.4 million increase in the provision for income taxes and a $13.7 million loss on the extinguishment of debt. The increase is attributable primarily to the Texas District, which recorded a $19 million provision for income taxes in 1995 compared with $2 million in 1994. This increase in provision by the Texas District is attributed to anticipated capital distributions by the FCB to the Production Credit Associations. The increase in Systemwide provisions is also due to an increase in taxable income.

The System can offset some of its tax liability by declaring patronage distributions. In 1995, the System declared $294.3 million in patronage distributions, of which $97.4 million is to be paid in cash. Of the remaining $196 million in declared patronage, $114 million was transferred to allocated surplus, and the remaining $82 million was declared as capital stock. These allocations are primarily in the AgFirst and CoBank districts and the St. Paul BC.

Figure 6

Farm Credit System Capital as a Percentage of Total Assets, 1991–1995



Source: Federal Farm Credit Banks Funding Corporation Annual Information Statements.
Note: Protected stock is not included since it represents a small (1.6 percent) percentage of total capital at year-end 1995.

Capital

As the System generates and retains earnings, total capital continues to grow.[4] During 1995, total capital grew 9.8 percent to $9.86 billion. Capital rose from 13.5 percent of total assets at year-end 1994 to 13.8 percent at year-end 1995 (Figure 6). Surplus increased 14 percent and comprises 67 percent of total capital compared with 64 percent at the end of 1994. Also contributing to capital is a $6.4 million net unrealized gain on investments available for sale versus a $107.6 million net unrealized loss at year-end 1994, representing a $114 million increase. Capital coverage of nonperforming loans also improved, from 5.6 times to 8.6 times.

As of year-end 1995, all System institutions were in compliance with the minimum capital requirement of the Farm Credit Administration (FCA or Agency). The Agency requires each institution to maintain a minimum 7 percent permanent capital to risk-adjusted assets.

4. Total capital includes protected capital and restricted capital. Protected capital ($160.6 million at year-end 1995) is composed of borrower stock, participation certificates, and allocated equities that were outstanding as of January 6, 1988, or were issued or allocated before October 8, 1988. Protection of certain borrower capital is provided under the Farm Credit Act of 1971, as amended, which requires FCS institutions, when retiring protected borrower capital, to retire such capital at par or stated value regardless of its book value. Restricted capital ($1.02 billion at year-end 1995) represents the total assets of the Insurance Fund.

Table 1
Farm Credit System Loan Volume, 1991-1995
(Dollars in Millions)

Loan Category	1991	1992	1993	1994	1995	Percentage Change from 1991
Long-Term Real Estate	$26,701	$26,907	$26,461	$26,440	$26,634	(0.3%)
Production and Intermediate-Term	10,684	10,398	10,979	11,648	13,046	22.1%
Domestic Cooperatives	6,594	6,474	7,604	7,700	10,330	56.7%
International Loans	2,925	3,892	3,739	3,202	2,759	(5.7%)
Rural Utilities	1,998	2,265	2,468	2,927	3,208	60.6%
Rural Home	1,632	1,772	1,737	1,680	1,628	(0.3%)
Other	923	699	921	1,079	984	6.6%
Total	**$51,457**	**$52,407**	**$53,909**	**$54,676**	**$58,589**	**13.9%**

Source: Federal Farm Credit Banks Funding Corporation Annual Information Statements.

Assets

Total assets increased 7.6 percent over year-end 1994 to $71.4 billion. The System's investment portfolio, up 9.7 percent from a year ago to almost $11 billion, contributed to the increase. Additionally, total loans of $58.6 billion, which constitute 82 percent of assets, increased 7.2 percent (Table 1). The largest increase came in domestic loans to agricultural cooperatives, up $2.6 billion. The System also saw an increase of $1.4 billion in production and intermediate-term loans. There was only a modest increase in long-term real estate lending. In fact, the proportion of long-term farm mortgages to total volume fell from 48.5 percent at year-end 1994 to 45.5 percent at year-end 1995.

All of the districts and the St. Paul BC contributed to the rise in 1995 loan volume. The largest increases were in the CoBank district (16.3 percent) and the St. Paul BC (24.5 percent). The increase in the CoBank portfolio is primarily in loans to cooperatives. CoBank's agribusiness loans increased 34.4 percent because of producers selling inventory to cooperatives early in the marketing season to take advantage of higher prices. At the same time, transportation difficulties prevented cooperatives from moving out those inventories. Therefore, the cooperatives turned to CoBank for inventory financing. Rural utility lending at CoBank increased 10.7 percent from expansion in telecommunications lending as telephone companies expanded their services.

The St. Paul BC portfolio grew for the same reasons. In fact, the St. Paul BC's gross loan volume actually grew just under 38 percent in 1995, to $3.7 billion. However, because of lending limits and the need to manage its portfolio to improve its capital ratios, the St. Paul BC sold 37 percent of its gross volume to other FCS institutions.

The AgFirst and AgriBank district portfolios grew just under 5 percent in 1995. The AgFirst District experienced most of its growth in production and intermediate-term loans, which increased more than 21 percent. The AgriBank District also increased its volume in this segment by 12.5 percent and

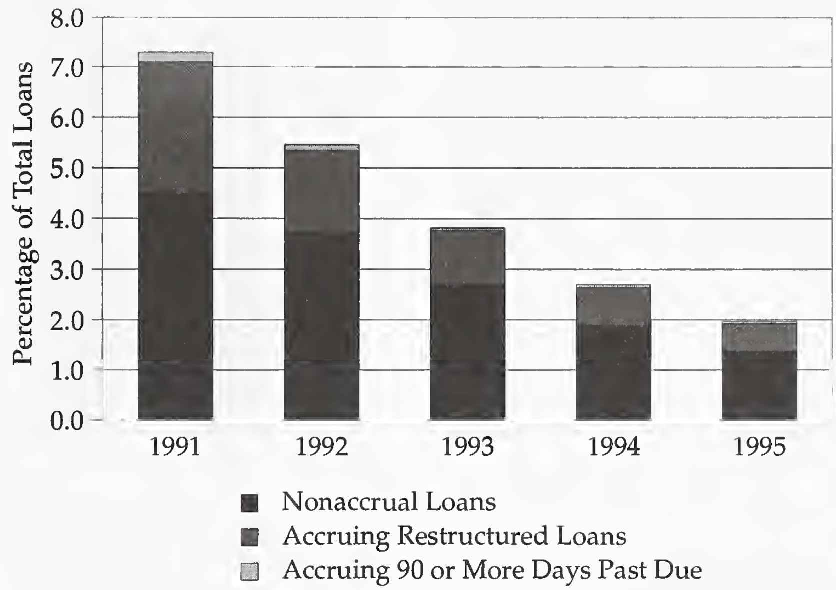
increased its participations purchased almost 100 percent. Of the participations purchased, $190 million was in agricultural real estate loans from insurance companies.

Asset Quality

Loan quality has improved. Nonperforming loans fell $326 million (22 percent) from 1994 balances, to $1.15 billion at year-end 1995. Nonperforming loans now represent less than 2 percent of the portfolio (Figure 7). Nonaccrual loans dropped 23 percent over the same period, to $801 million. Of these loans, 63 percent are current as to principal and interest payments. On the other hand, accruing loans 30 or more days past due increased approximately 15 percent over the past year, from $382 million to $440 million. At present, the delinquency rate is less than 1 percent of the total portfolio.

Figure 7

Nonperforming Loans in the Farm Credit System, 1991–1995



Source: Federal Farm Credit Banks Funding Corporation Annual Information Statements.

All Farm Credit districts and the St. Paul BC reduced nonperforming loans during 1995. In fact, substantially all of the districts and St. Paul BC were able to reduce nonaccrual loans by more than 15 percent during 1995. Nonaccruals now represent 2 percent or less of all the portfolios.

Even though all nonperforming categories in the System were down, some districts experienced an increase in accruing loans 90 or more days past due during 1995: AgFirst (7 percent), Texas (91 percent), Wichita (16 percent), and Western (3 percent). The Texas District increase is attributed to borrowers' problems with drought, insects, and falling cattle prices.

The System's allowance for loan losses, though up slightly from year-end 1994, is down in relation to the loan portfolio, from 2.99 percent to 2.86 percent at year-end 1995. However, the allowance is more than twice the amount of nonaccrual loans, compared with 1.6 times in 1994; nonaccrual loans are the loans posing the greatest risk of loss to the System.

CAMEL Ratings

The overall improvement in the financial performance and condition of FCS is also evident in the CAMEL (capital, asset quality, management, earnings, and liquidity) ratings given as a result of FCA's examinations. At year-end 1995, there were no 4- or 5-rated institutions (Figure 8), and the percentage of 3-rated institutions dropped from 15.4 percent at year-end 1994 to 6.3 percent at year-end 1995.

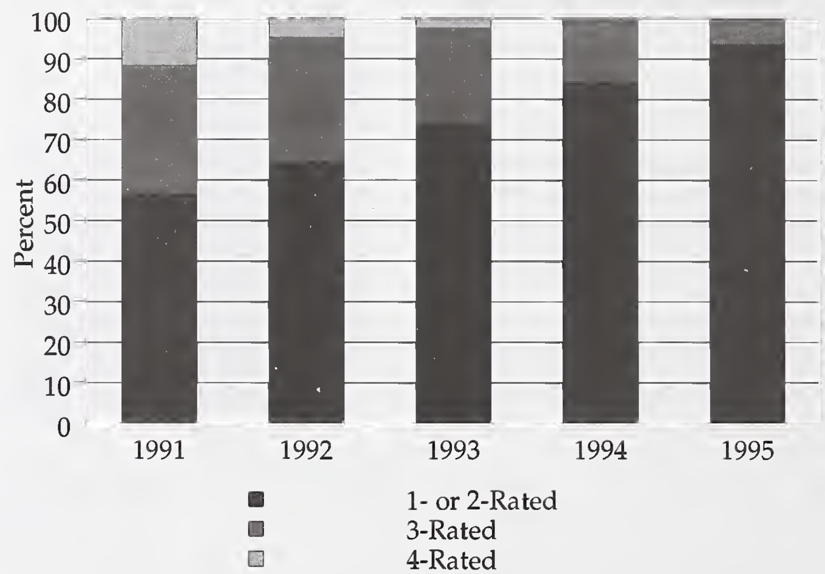
Enforcement Activity

Consistent with this trend of improving financial condition, enforcement activity has declined. FCA may use various enforcement authorities to ensure that FCS institution operations are safe and sound and in compliance with applicable statutes and regulations. These authorities include the power to issue agreements and cease and desist orders, to levy civil money penalties, to remove officers and directors of FCS institutions, and to establish financial and operating reporting requirements.

During the 12-month period ending December 31, 1995, the Agency did not enter into any agreements or cease and desist orders with FCS institutions. By comparison, it entered into one cease and desist order and two agreements in 1994. The Agency issued one supervisory letter and six followup letters to institutions operating under existing enforcement actions and imposed formal conditions upon its approval of corporate restructuring with one association during 1995.

Figure 8

CAMEL Ratings for Farm Credit Banks and Associations, 1991–1995



Source: FCA Examination Reports.

Note: CAMEL ratings are based on capital, asset quality, management, earnings, and liquidity. Ratings range from 1 (a sound institution) to 5 (an institution that is likely to fail).

Improving financial and credit conditions, coupled with satisfactory compliance with the enforcement action, resulted in the Agency's termination of enforcement actions for 17 FCS institutions during 1995. At year-end 1994, 26 FCS institutions with aggregate assets[5] of $27.2 billion were under some form of enforcement action. At year-end 1995, only eight institutions with $8.3 billion in assets were under enforcement action.

All three receiverships that existed at year-end 1994 were concluded in mid-1995. No institutions were in receivership as of December 31, 1995.

5. The previous method of calculating total aggregate assets under enforcement actions eliminated double counting of assets in associations and district banks under action. The current method is a more accurate measure. The previous method of calculating year-end 1994 assets yielded $26.6 billion of FCS assets under enforcement action.

Farm Credit Leasing Services Corporation[6]

The Farm Credit Leasing Services Corporation (Leasing Corporation) is a service corporation owned and funded by the Farm Credit banks. The Leasing Corporation's headquarters are in Minneapolis, Minnesota, with sales offices throughout the United States. It specializes in equipment leasing to agricultural producers and their cooperatives, rural electric and telephone organizations, and System entities. The Leasing Corporation was chartered in 1983 and in 1984 acquired the net assets of Interregional Service Corporation. Since then, Leasing Corporation business volume and profitability have increased steadily. At year-end 1994, the Leasing Corporation was the 49th largest U.S. lessor. On September 30, 1995, the end of its 1995 fiscal year, the Leasing Corporation had more than 28,000 contracts outstanding to more than 7,600 customers in all 50 States.

Net earnings of $7.1 million in 1995 were substantially higher than 1994's $2.9 million, due primarily to nonrecurring expenses charged in 1994. Pretax earnings for the fiscal year ending September 30, 1995, were $11.8 million, up from $5.7 million for fiscal year 1994. In fiscal year 1994, the Leasing Corporation wrote off $4.5 million in goodwill that remained from the aforementioned 1984 acquisition. Without this charge, 1994 earnings would have been $10.2 million and 1995 earnings would have represented a 16-percent increase over 1994 earnings.

Assets were up 7.7 percent to $531.1 million in 1995, and lease placements were up 7.5 percent to $334 million. Half the new business volume in fiscal year 1995 came directly from cooperatives; the rest came from producers (20 percent), FCS associations (19 percent), and brokers and others (11 percent). About 56 percent of new lease placements were generated in the Midwest and Southwest. Of the $334 million in placements, $235 million was added to the Leasing Corporation portfolio and $99 million was syndicated with FCS banks and others. Approximately $180 million of these leases was originated with cooperative organizations, and $154 million was transacted with agricultural producers.

Asset quality improved. Net chargeoffs in fiscal year 1995 were $184,000, down from $474,000 in fiscal year 1994. Nonaccrual leases were $4.8 million at fiscal year-end, down from $6.5 million the year before. The allowance for doubtful lease collections was $9.3 million at fiscal year-end, or 1.8 percent of outstanding leases, up from $7.4 million and 1.6 percent from year-end 1994.

The Leasing Corporation's capital-to-asset ratio was 9.2 percent, up from 8.9 percent at September 30, 1994. Permanent capital was 8.2 percent of risk-adjusted assets at September 30, 1995, compared with 8.3 percent a year earlier.

Farmer Mac

Since its inception in 1988, the Federal Agricultural Mortgage Corporation (Farmer Mac) has generated insufficient business volume to achieve profitability, resulting in $10.1 million of cumulative net losses that have reduced its capital to $11.7 million. The 1995 loss was $647,000, compared with the $1.3 million loss in 1994. During 1995, Farmer Mac guaranteed $101 million in securities backed by two new Farmer Mac I pools, developed two new Farmer Mac I pooling programs, and expanded its Farmer Mac II volume by 62 percent. The most significant event was the development of new legislation, the Farm Credit System Reform Act of 1996, which was signed into

6. The Farm Credit Leasing Services Corporation (Leasing Corporation) operates on a fiscal year ending September 30. The investments of the Farm Credit banks in the Leasing Corporation, but not the Leasing Corporation's assets, are included in the combined financial statements of the FCS.

law on February 10, 1996, and which provided Farmer Mac with potential benefits.

Farmer Mac operates two programs. In Farmer Mac I, pools of agricultural real estate or rural housing loans are formed, mortgage-backed securities are created, and Farmer Mac provides a guarantee of timely payment of principal and interest to security holders. From business inception through 1995, Farmer Mac had guaranteed $748 million of Farmer Mac I securities involving seven transactions; $359 million in securities was still outstanding at year-end, of which Farmer Mac held $279 million.

In Farmer Mac II, lenders sell federally guaranteed portions of Farm Service Agency or Rural Economic and Community Development loans to Farmer Mac, which pools the loans and may create securities with guarantees of timely payment of principal and interest.

From business inception through 1995, Farmer Mac had issued and guaranteed $185 million of Farmer Mac II securities; $143 million was still outstanding at year-end, of which Farmer Mac held $139 million.

The smaller net loss in 1995 came from a $416,000 increase in total income and a $269,000 decrease in expenses. Overall, expenses were down $269,000, to $3.7 million. Farmer Mac derived its income in 1995 from interest income, security guarantee fees, and pooler fees. Interest income was generated primarily from Farmer Mac I and II securities held by Farmer Mac. The net interest income earned on these retained securities and other investments amounted to $1.7 million, up from $1.4 million in 1994 and about in line with $1.8 million in 1993. Guarantee fees were up $116,000 to $1.2 million, and miscellaneous income—mostly fees associated with Farmer Mac II transactions—was down $6,000 to $171,000.

Farmer Mac increased its holdings of investment securities from $9.4 million at year-end 1994 to $63.3 million at year-end 1995. These securities were primarily floating-rate Farmer Mac I and Farmer Mac II securities originated during the year and retained instead of sold. The weighted average rate on these available-for-sale securities was 6.41 percent, and the weighted average maturity was greater than 10 years. The increased investments and other outstanding securities were funded primarily by drawing down cash from $73 million to $8 million and by increasing note and bond debt by $35 million. Despite the increase in interest-earning assets, the smaller net loss was due to the increased spread Farmer Mac received on such assets rather than to volume. There is no assurance that such favorable spreads will continue.

Farmer Mac had some interest rate and credit risk in its operations. Most of the interest rate risk, which was due to loan prepayments, was offset by yield maintenance agreements and the issuance of callable and noncallable notes of varying maturities to match expected cash flows. Credit risk was controlled through stringent underwriting, diversification, and subordinated loss reserves. Only seven loans, comprising 0.5 percent of the aggregate principal amount of outstanding Farmer Mac I securities, were either past due more than 90 days, in foreclosure, or in acquired property, and none were deemed likely to result in loss to Farmer Mac.

Capital declined to $11.7 million but exceeded the $4.7 million required by statute. However, statutory requirements in effect at year-end 1995 would have required Farmer Mac to increase its capital sharply by year-end 1996.

Because such a dramatic increase was unlikely, and because other provisions of the statutes governing Farmer Mac were thought to

be limiting Farmer Mac's opportunities, Farmer Mac sought changes to the statute. Farmer Mac was successful in securing several key changes, which permit it to act as a pooler, purchase qualified loans, issue securities backed by those loans without a subordinated reserve, and eliminate the diversification requirement from its underwriting standards.[7] In addition, the statute provides that pooled loans are not subject to "borrower rights" provisions. The statutory capital requirements were modified and their full implementation delayed for 3 years. The new statute sets specific capitalization requirements that must be met within 2 years and provides explicit authority to FCA to place Farmer Mac in receivership if it is unable to continue operations in a safe and sound manner. The result of these statutory changes is to give Farmer Mac additional authorities and a few extra years to achieve profitability.

Farm Credit System Insurance Fund[8]

The Farm Credit System Insurance Corporation (FCSIC) was established by the Agricultural Credit Act of 1987 (1987 Act) as an independent U.S. Government-controlled corporation. FCSIC's purpose is to ensure the timely payment of principal and interest on insured notes, bonds, and other obligations issued on behalf of FCS banks and to act as conservator or receiver of FCS institutions. By ensuring the repayment of FCS securities to investors, FCSIC helps maintain a dependable source of funds for farmers, ranchers, and other FCS borrowers. FCA Board members concurrently serve as the board of directors for FCSIC; however, the FCA Board Chairman cannot serve as the FCSIC Board Chairman.

FCSIC manages the Insurance Fund in carrying out its mission of protecting investors. The Insurance Fund balance at year-end 1995 was $902 million, an increase of $147 million (19 percent) from 1994. The increased fund balance was due to premiums of $79 million, interest income of $55 million, and a negative provision for estimated insurance obligations of $14 million, offset by operating expenses of $1 million. The negative provision for estimated insurance obligations resulted from increased earnings on funds set aside by FCS to repay its obligations resulting from financial assistance authorized by the 1987 Act. The increased earnings reduced the estimated liability of the Insurance Fund.

7. Prior to the enactment of the new statute, the minimum level of core capital required to be maintained by Farmer Mac was to increase in December 1996 from 0.45 percent to 2.5 percent of all on-balance-sheet assets. The 1996 Act requires Farmer Mac to hold an amount of core capital equal to 2.75 percent of on-balance-sheet assets. Off-balance-sheet assets must be capitalized at 0.75 percent, up from 0.45 percent previously required. In addition, the 1996 Act requires Farmer Mac to increase its total core capital to at least $25 million by February 10, 1998, or within 180 days after the first calendar quarter that its aggregate on-balance-sheet assets plus outstanding off-balance-sheet obligations equals or exceeds $2 billion, whichever occurs first. The 1996 Act further provides that during the 3-year period following its enactment, Farmer Mac's on-balance-sheet assets plus off-balance-sheet obligations may not exceed $3 billion unless and until its total core capital is at least $25 million.

8. Further information about the Farm Credit System Insurance Corporation (FCSIC) and the Insurance Fund is available in FCSIC's Annual Report.

Funding the Farm Credit System

The Farm Credit System banks obtain most of their loan funds through the sale of debt securities, chiefly Federal Farm Credit Banks Consolidated Systemwide Bonds and Discount Notes. In recent years, they have also used specialized funding activities, including a medium-term note program, hedging, swaps, and other financing mechanisms.

Funding activities are handled by the Federal Farm Credit Banks Funding Corporation, which offers securities to the public through a selling group of approximately 70 investment dealers and dealer banks.

The debt securities are not obligations of, nor are they guaranteed by, the United States or any agency or instrumentality thereof, other than the Farm Credit System banks. The debt securities are the joint and several obligations of the Agricultural Credit Bank (ACB), Farm Credit Banks (FCBs), and the Bank for Cooperatives (BC) and are backed by their combined resources and insured by the Farm Credit System Insurance Corporation.

Early in 1995 the Federal Reserve raised the Federal Funds[1] rate another 50 basis points, after raising it six times in 1994 for a total of 250 basis points. The Federal Reserve subsequently dropped the rate twice, in July and December, by 25 basis points each time. As a result, the average rate on new issuances for 1995, at 5.8 percent, was significantly above the 1994 average of 4.54 percent (Table 2). The spread over Treasuries increased 5.5 basis points over that of 1994. This is the second year the spread widened, after 6 years of narrowing margins.

The System also had considerably more activity in the markets during 1995, with $243.8 billion in issuances compared with $185.8 billion in 1994. Much of this activity stems from a $50 billion increase in the use of discount notes, especially overnight notes. The shorter maturity of this debt allowed the System to shorten the duration of its liabilities in order to take advantage of falling interest rates. Even so, there was a net paydown of $1.2 billion in discount notes in 1995.

The use of medium-term notes (MTNs) also increased in 1995, with $13 billion in issuances compared with $5.2 billion in 1994. Additionally, the balance at year-end 1995 of $22.3 billion was 48 percent above the balance at year-end 1994. MTNs have become increasingly popular to enable System banks to meet the asset/liability needs of their portfolios. MTNs provide more flexibility than bonds because they can be fixed or floating rate. In addition, issue and settle dates, as well as the repricing characteristics, can be negotiated to better manage cash flows. MTNs are also issued in higher minimum denominations ($100,000) than bonds ($1,000).

Bond activity was down slightly in 1995, with $31.2 billion in issuances compared with $32.2 billion in 1994. There was a net paydown in bonds of $1.7 billion during 1995. Even though the mix of debt changed in 1995, the average maturity of the System's liabilities remained at 1.2 years.

Several banks extinguished high-cost debt in 1995. The Texas FCB in-substance defeased $102 million in debt by purchasing $107.7 million in Treasury securities and placing them in a trust. The cash flows from this trust will make the interest payments on the debt and, upon maturity, will pay the principal balance. The bank recognized a $10.4 million loss on the transaction. Both the Texas FCB and CoBank repurchased some high-cost debt and paid a premium of $3.0 million.

Three FCBs — Western, Wichita, and Texas — also exchanged debt at current market rates. The exchange allowed these banks to manage their asset/liability structure without having to pay commission fees associated with issuing new securities.

1. The Federal Funds rate is the interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements.

Table 2
Farm Credit System Debt, 1991-1995
(Dollars in Millions)

Year[1]	Rate[1] (%)	Spread[1] (Basis Points)	New Issues ($)
Discount Note Issues			
1991	5.75	N/A	132,167
1992	3.61	N/A	119,942
1993	3.15	N/A	126,392
1994	4.48	N/A	148,370
1995	5.76	N/A	198,459
3-Month Issues			
1991	5.64	12	13,435
1992	3.61	7	16,150
1993	3.13	4	15,195
1994	4.37	11	14,890
1995	5.86	17	16,534
6-Month Issues			
1991	5.74	7	9,180
1992	3.73	4	8,749
1993	3.25	2	8,100
1994	4.71	7	7,830
1995	6.02	8	5,944
Medium-Term Notes			
1991	7.25	19[2]	2,452
1992	5.69	16[2]	5,536
1993	5.07	19[2]	6,903
1994	6.11	20[2]	5,205
1995	6.53	32[2]	13,001
All Term Debt Issues			
1991	6.47	13	8,898
1992	4.56	10	7,068
1993	3.66	5	6,670
1994	5.10	9	8,519
1995	5.93	6	6,261
All Debt Issues			
1991	5.81	13	169,451
1992	3.70	8	161,301
1993	3.18	5	164,933
1994	4.54	11	185,835
1995	5.80	16.5	242,702

Note: N/A=Not applicable.
1. Averages for the year.
2. Does not include floating rate notes.
Source: Farm Credit System Annual Information Statement and Farm Credit System Funding Corporation Annual Report.

Corporate Activity

During calendar year 1995, the Farm Credit Administration (FCA) Board approved 20 corporate applications, including 2 bank consolidations; two transfers of direct lending authority from Farm Credit Banks (FCBs) to Federal Land Bank Associations (FLBAs), resulting in the formation of Federal Land Credit Associations (FLCAs); 8 association mergers; the formation of a service corporation; 2 interim joint management agreements between associations; 1 permanent joint management agreement between associations; and 5 association charter amendments for name changes and headquarters relocations.

The System's first Agricultural Credit Bank (ACB), CoBank, was chartered January 1, 1995, from the consolidation of the National Bank for Cooperatives, the Springfield Bank for Cooperatives, and the FCB of Springfield. CoBank, headquartered in Denver, Colorado, provides credit to eligible cooperatives nationwide and loan funds to five Agricultural Credit Associations (ACAs). Simultaneously with its formation, a service corporation was organized to provide support services contracted for by the bank's affiliated ACAs. The corporation, Farm Credit Financial Partners, Inc., is headquartered in Agawam, Massachusetts, and is a wholly owned subsidiary of CoBank.

Effective April 1, 1995, the FCBs of Baltimore and Columbia consolidated to form AgFirst Farm Credit Bank, headquartered in Columbia, South Carolina.

The FCA Board also discharged and released the receivers of the Federal Land Bank of Jackson and Federal Land Bank Association of Jackson on January 30, 1995, and the Richmond Production Credit Association in the Texas District on July 10, 1995. With these actions, the receiverships of all System institutions previously in liquidation have been closed and the institutions' charters canceled.

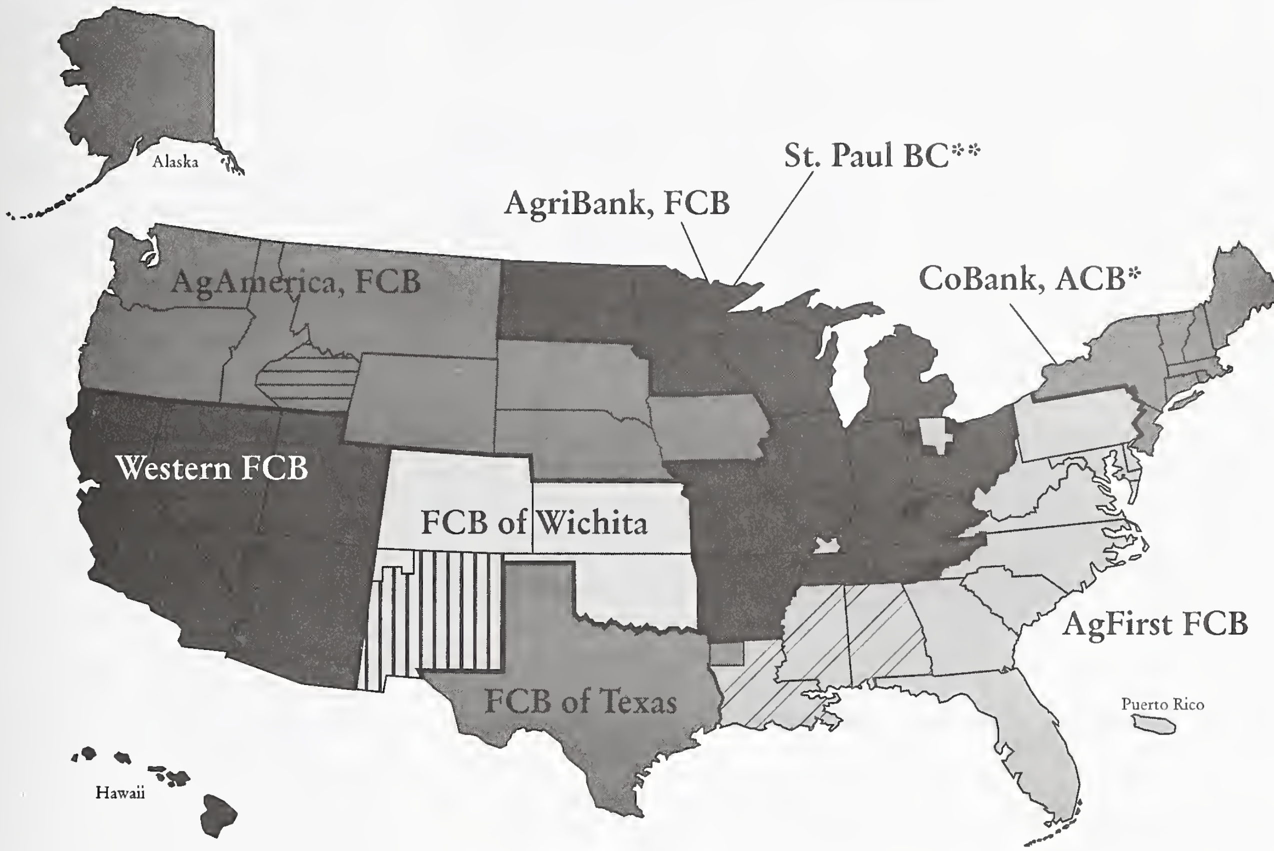
During calendar year 1995, the FCA Board disapproved requests from two associations to expand their chartered territory. Table 3 illustrates the association structure in each Farm Credit district. Figure 9 depicts the chartered territories of Farm Credit System banks.

Table 3
Farm Credit Association Structure[1]
(As of January 1, 1996)

Affiliation	FLBA	PCA	ACA	FLCA	Totals
CoBank, ACB[2]	0	0	5	0	5
AgFirst FCB	0	1	39	0	40
AgriBank, FCB	0	19	11	19	49
FCB of Wichita	22	17	0	0	39
FCB of Texas	48	17	0	0	65
Western FCB	0	11	4	12	27
AgAmerica, FCB	0	1	1	1	3
Totals	70	66	60	32	228

1. FLBA=Federal Land Bank Association; PCA=Production Credit Association; ACA=Agricultural Credit Association; FLCA=Federal Land Credit Association; ACB=Agricultural Credit Bank; FCB=Farm Credit Bank.
2. CoBank, ACB has authority to serve cooperatives nationwide and ACAs in the former Springfield District.

Figure 9
Chartered Territories of Farm Credit System Banks
(As of January 1, 1996)



AgAmerica, FCB	Western FCB	FCB of Wichita	FCB of Texas	AgriBank, FCB	CoBank, ACB	AgFirst FCB
1 ACA	4 ACAs	22 FLBAs	48 FLBAs	11 ACAs	5 ACAs	39 ACAs
1 FLCA	12 FLCAs	17 PCAs	17 PCAs	19 FLCAs		1 PCA
1 PCA	11 PCAs			19 PCAs		

The Albuquerque, Eastern New Mexico and Southern New Mexico PCAs are funded by the FCB of Texas.

The FLBAs in Alabama, Louisiana, and Mississippi generate and service loans for the FCB of Texas. The Northwest Louisiana PCA is funded by the FCB of Texas.

*The CoBank, ACB serves cooperatives nationwide and ACAs in the former Springfield District.

**The St. Paul BC also serves cooperatives nationwide.

The AG CREDIT, ACA (Ohio), Central Kentucky ACA (Kentucky), Chattanooga ACA (Tennessee), and Jackson Purchase ACA (Kentucky) are funded by the AgFirst FCB.

The Eastern Idaho ACA is funded by the Western FCB.

Young, Beginning, and Small Farmers

The Farm Credit Administration (FCA) is required to report annually to Congress on special programs developed by the Farm Credit System (FCS or System), pursuant to Section 4.19 of the Farm Credit Act of 1971, as amended (Act), to serve young, beginning, and small farmers. Since 1982, FCA has provided such reports, containing summary statistics as well as an overview of the kinds of programs offered. This 1995 report includes both highlights for 1995 and a summary comparison for the 1988–1995 period. Data for earlier years are not directly comparable, because the definition of small farm was made more restrictive in 1988.[1] Data are provided on all Farm Credit System loans[2] and then for four different definitions of loans to young, beginning, and small farmers. Some comparisons are made with the 1992 Agricultural Census, which provides approximate benchmarks.

Definition of Young, Beginning, and Small Farmers[3]

Information is reported for five different classifications of loans: (1) all System loans for farming purposes, which provides a base for comparison, (2) loans to young farmers, where the primary borrower is age 35 or under, (3) loans to beginning farmers, those who have 5 years or less of farming experience, (4) loans to small farmers, those with annual sales less than $40,000 and assets less than $100,000, and (5) loans to young, beginning, and small farmers, defined as those satisfying at least two of the three criteria in (2), (3) and (4). The young, beginning, and small (YBS) farmers classification is the most restrictive.

Table 4

1995 FCS Loan Numbers and Amounts by Type of Borrower

Borrower Group	Percentage of Number	Percentage of Dollar Amount
1. All Farmers	100.00	100.00
2. Young Farmers	5.14	4.50
3. Beginning Farmers	3.03	4.66
4. Small Farmers	7.12	3.22
5. Young, Beginning, and Small Farmers	2.85	1.77

Source: Call Reports received from the Farm Credit System as of December 31, 1995.

1995 FCS Lending to Young, Beginning, and Small Farmers

FCS had 586,379 total farm loans outstanding at the end of 1995 for an aggregate amount of $41.9 billion. This total represents 4,534 fewer loans than a year earlier and a decrease in amount of $2.1 billion. Some 2.85 percent of the number and 1.77 percent of the dollar amount was to borrowers meeting the most restrictive standard for YBS farmers, category 5 (Table 4). These YBS loans comprised 16,695 loans for an aggregate amount of $740 million. The percentage of number of loans made to YBS farmers ranged up to 7.12 for the various categories of loans. The highest percentage of number of System loans was to small farmers—41,376 loans. The percentage of total loan amounts to YBS farmers varied according to the definition used, from 1.77 to 4.66. The largest loan amounts were to the young farmer category, and equaled $1.3 billion (Table 7).

1. For the entire period, two criteria were used to classify small farms. The sales criterion stayed constant at $40,000 or less. Before 1988, the second criterion was a net worth of $100,000 or less. In 1988, the criterion was changed to total assets of $100,000 or less, which is a more restrictive standard.
2. FCS data are for loans, rather than number of persons who are borrowers, and are summarized for all the types of banks and associations that have retail farm mortgage or operating loans. Data are from special reports filed annually with FCA by the Farm Credit Banks.
3. It is unclear whether Congress intended for young, beginning, and small farmers to be a single classification or three separate classifications. This analysis permits either to be used.

YBS Farmers by Association Type in 1995

The following tables break out activity by the four types of lending associations: Production Credit Associations (PCAs), which provide nonmortgage or operating and intermediate-term loans only; Federal Land Bank Associations and Federal Land Credit Associations (FLBAs/FLCAs), which provide mortgage loans on real estate; and Agricultural Credit Associations (ACAs), which provide both. Table 5 summarizes numbers of loans; Table 6 covers loan volume. PCAs have the largest percentage of loan numbers with YBS farmers, 7.9 percent for young farmers; FLBAs/FLCAs have the lowest, 2.5 percent for the same group.[4] This distribution is due to the fact that leasing land rather than purchasing it using mortgage credit lowers the capital threshold required to enter farming, and thus lessens the need for mortgage financing.

ACAs serve a significantly higher percentage of small farmers than do the other three association types, perhaps because ACAs predominate in the areas of the United States that have more nonfarm rural industry and more part-time farmers.

PCA share of volume to young farmers, beginning farmers, and YBS farmers is the largest of any institution type, ranging from 4.5 to 6.3 percent (Table 6). However, ACAs, which provide both operating and mortgage credit, have the largest percentages to small farmers.

Table 5

Percentage of Total Number of Loans to Young, Beginning, and/or Small Farmers, by Institution Type

(As of December 31, 1995)

Borrower Group	PCA (%)	ACA (%)	FLBA/FLCA (%)
Young Farmers	7.86	5.97	2.47
Beginning Farmers	4.22	2.76	2.85
Small Farmers	3.81	11.23	2.19
Young, Beginning, and Small Farmers	4.53	3.41	1.10

Source: Call Reports received from the Farm Credit System as of December 31, 1995.

Table 6

Percentage of Total Loan Volume to Young, Beginning, and/or Small Farmers, by Institution Type

(As of December 31, 1995)

Borrower Group	PCA (%)	ACA (%)	FLBA/FLCA (%)
Young Farmers	6.25	5.78	2.50
Beginning Farmers	5.29	5.03	4.04
Small Farmers	1.46	6.07	0.65
Young, Beginning, and Small Farmers	4.53	2.35	0.94

Source: Call Reports received from the Farm Credit System as of December 31, 1995.

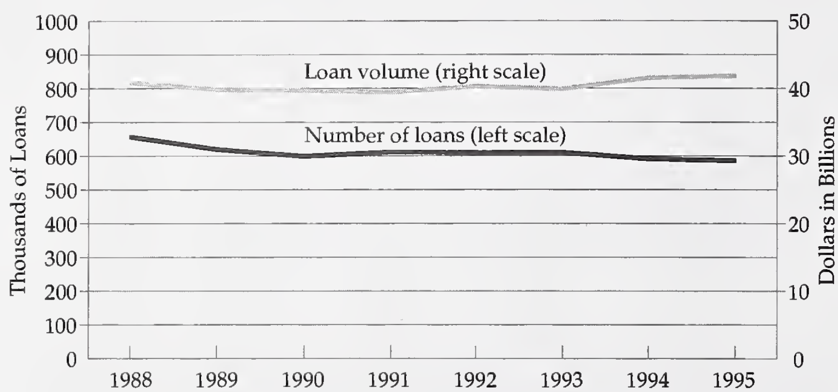
Trends in FCS Lending to Young, Beginning, and Small Farmers, 1988–1995

Since 1988, the total number of System loans to farm borrowers has dropped by about 70,000, or 11 percent, to 586,379, but loan volume is up from $40.8 billion to $41.9 billion. These trends are presented in Figure 10.

Although the same general pattern holds for each subcategory of YBS farmers, there are some deviations. Loan volume in the small and young farmers categories is down since 1988, to 17 percent for small farmers and 4 percent for young farmers. Volume was up only slightly for beginning farmers (4 percent), and up less than 1 percent for YBS farmers. Loan numbers were down for all categories. These trends are shown in Figures 11 through 14, which trace the number of loans and the dollar volume for each category of borrower for the past 8 years.

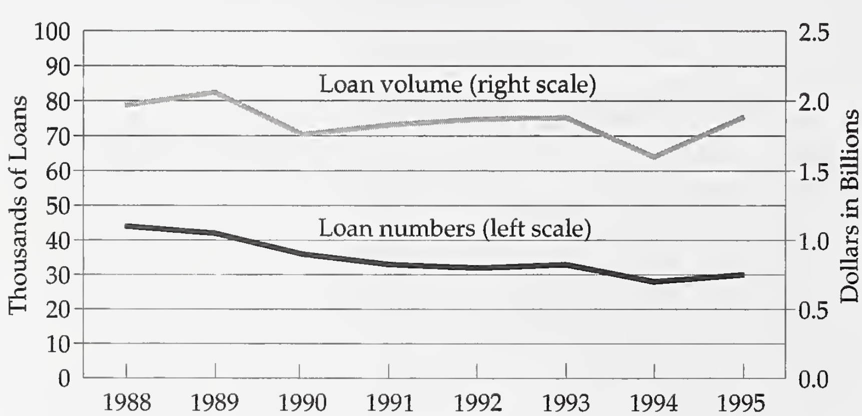
4. The 1992 Agricultural Census found that 4.1 percent of all farmers are young and have operating debt, while 3.6 percent are young and have real estate debt. However, number of loans is not directly comparable with number of farm operators.

Figure 10
All Farmers: Loan Numbers and Volume, Farm Credit Banks and Associations, 1988–1995
(As of December 31)



Source: Annual Young, Beginning, and Small Farmers Report submitted by Farm Credit Banks.

Figure 11
Young Farmers: Loan Numbers and Volume, Farm Credit Banks and Associations, 1988–1995
(As of December 31)



Note: Young means 35 years of age or younger.
Source: Annual Young, Beginning, and Small Farmers Report submitted by Farm Credit Banks.

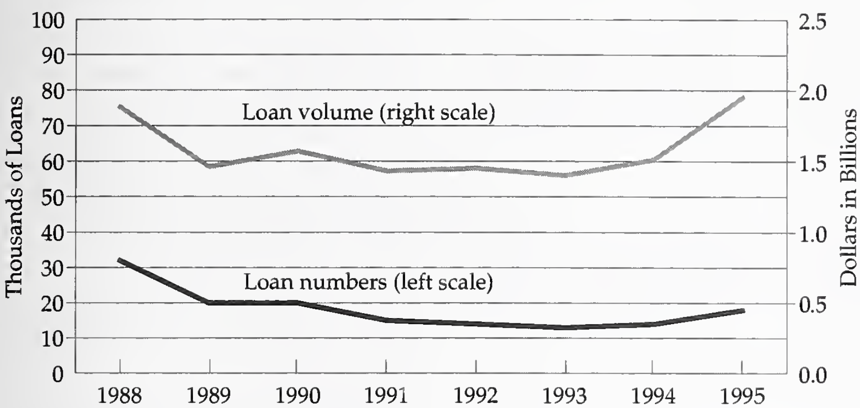
Declining Trend in Farm Numbers

FCS trends in the number of YBS farmers must be seen in light of the declining trends in farm numbers and new entrants overall. The number of farms in the United States has decreased continuously from its peak of 6.8 million in 1935, as is normal in the process of economic development. This trend has meant that the retiring generation of farmers is only partially replaced by new entrants, and the average age of farmers is relatively high. A significant portion of the assets of retiring farmers is consolidated into existing operations, which do not represent new farming opportunities.

The System's YBS farmers lending programs must operate in this economic environment of fewer entry opportunities for each generation. The U.S. Department of Agriculture estimates based on the Agricultural Census indicate that the gross number of new entrants to farming averaged 100,000 per year for 1978–1982, when farm income prospects were strong and urban-to-rural migration was high. Rates dropped to 75,000 per year for 1982–1987, in the midst of the agricultural credit crisis. And rates dropped again, to about 67,000 per year, for 1987–1992.

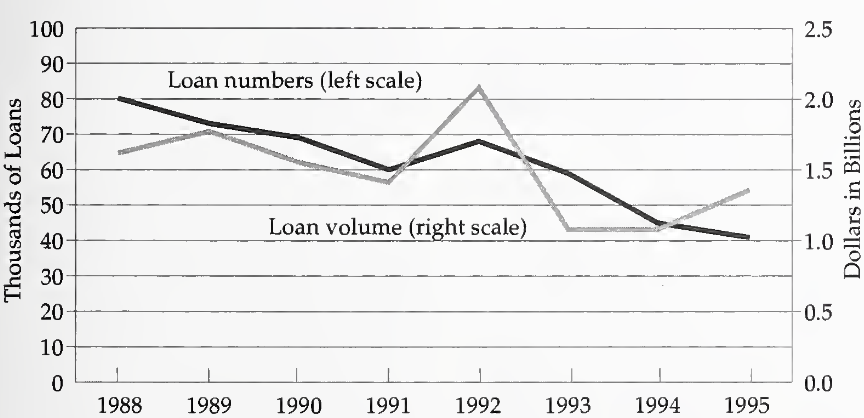
From 1982 to 1992, the number of exits fluctuated much less, but it always exceeded the number of entrants, as reflected in the gradual drop in number of farms to less than 2 million today. Entrants, like exits, occurred

Figure 12
Beginning Farmers: Loan Numbers and Volume, Farm Credit Banks and Associations, 1988–1995
(As of December 31)



Note: Beginning means 5 years or less of farming experience.
Source: Annual Young, Beginning, and Small Farmers Report submitted by Farm Credit Banks.

Figure 13
Small Farmers: Loan Numbers and Volume, Farm Credit Banks and Associations, 1988–1995
(As of December 31)



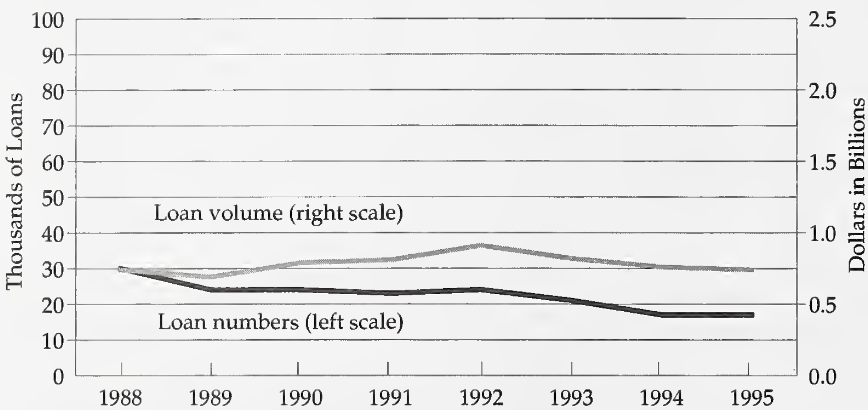
Note: Small means annual sales less than $40,000 and less than $100,000 in assets.
Source: Annual Young, Beginning, and Small Farmers Report submitted by Farm Credit Banks.

among all age groups, but the largest percentage occured among young farmers (age 35 or under), who are also likely to be beginning farmers. The net decrease in numbers of farms varied from 3,000 per year during the favorable income years of 1978–1982 to 20,000 per year during the farm financial crisis of the mid-1980s. The decrease continued to grow to 32,500 per year for 1987–1992, even as farm incomes recovered, and it is projected to grow further in the 1992–2002 decade.

The declining number of farms combined with the enlargement of existing farms means fewer farm units are available for new entrants with each succeeding generation. The large number of farmers in older age groups as of 1992 means that the exit rate will be increasing among those who remain in the decade ahead. A portion will be replaced by new entrants. But another portion of retiring farmers' operations will continue to be consolidated into existing farm units.

All these numbers represent farm operations in which the primary operator of the farm fits the definition of a farmer. The numbers exclude individuals who are junior members of a multioperator farm, because the Agricultural Census assumes only one operator per farm. Some additional opportunities occur for junior partners to enter multiple-owner operations, but only primary operators are counted in Agricultural Census and loan statistics.

Figure 14
Young, Beginning, and Small Farmers: Loan Numbers and Volume, Farm Credit Banks and Associations, 1988–1995
(As of December 31)



Note: Includes all borrowers meeting at least two of the three standards.
Source: Annual Young, Beginning, and Small Farmers Report submitted by Farm Credit Banks.

The requirements placed by Congress on the System cannot be expected to reverse such economic development trends. They can help lower the financial threshold for individuals, enabling them to compete for a limited number of entry opportunities. Capital requirements can be a significant entry barrier, because an individual farm operating unit is among the most capital-intensive of businesses. Methods for lowering the threshold include leasing capital assets and having FCS banks and associations provide special credit programs. The System's ability to lower this threshold is limited by the requirement that the borrower meet commercial creditworthiness standards.

District Programs for Young, Beginning, and Small Farmers
Section 4.19 of the Act requires each FCB and ACB to have policies and programs that specifically address the needs of YBS farmers. These policies may affect the entry threshold level.

The bank policies generally provide that maximum use will be made of the flexibilities available within individual programs, that cooperation is expected with other lenders, and that Federal and State lending and guarantee programs will be used. The policies also generally require associations to have programs meeting these requirements, and may offer bank assistance in carrying out the programs. In each case, required programs must be within sound credit underwriting standards and within the capital resources of the institution if additional risks are assumed.

Although association programs vary greatly among institutions, they have many common elements. The programs that focus directly on lending include pooling higher risk credits with normal-risk credits in loan pricing, creating specific programs for targeted groups, providing additional counseling and analysis to control risks on loans that would not otherwise be made, and using automated or simplified loan procedures for small loans to reduce costs of credit to borrowers.

Other programs provide targeted marketing to potential borrowers, including support of 4-H, Future Farmers of America, and young farmer and college student groups. Still others offer special education or training on financial management to such groups, advisory groups on appropriate programs, and outreach to farm meetings and organizations. Several districts require annual reporting on the number and extent of these activities, which helps ensure a continuing focus on YBS customers. In these districts, the number of annual counseling sessions, meetings, and outside activities typically runs in the hundreds.

Table 7
Farm Credit System Young, Beginning, and Small Farmer Loans: Number and Dollar Volume for All FCS Institutions, 1988–1995

	Young Farmers[1]		Beginning Farmers[1]		Small Farmers[1]		Young, Beginning, and Small Farmers[1]		All Farm Loans[2]	
Year	Number of Loans	Amount Outstanding ($ thousands)	Number of Loans	Amount Outstanding ($ thousands)	Number of Loans	Amount Outstanding ($ thousands)	Number of Loans	Amount Outstanding ($ thousands)	Number of Loans	Amount Outstanding ($ thousands)
Totals, All Farm Credit System Institutions										
1988	43,579	1,965,226	32,199	1,876,435	80,427	1,623,621	29,821	737,903	656,278	40,826,979
1989[3]	41,988	2,062,363	20,374	1,459,598	73,231	1,769,099	23,703	690,395	618,999	43,977,833
1990	35,790	1,755,960	20,332	1,566,324	68,672	1,559,395	23,796	787,109	598,895	39,675,459
1991	32,778	1,832,000	15,376	1,431,672	60,349	1,406,119	23,012	807,631	611,457	39,368,851
1992	31,735	1,872,308	13,926	1,450,559	68,296	2,076,059	23,940	910,741	609,030	40,288,982
1993	32,640	1,884,482	12,831	1,396,963	59,028	1,080,281	21,250	820,433	609,835	39,880,735
1994[3]	27,974	1,598,979	13,860	1,505,462	45,331	1,077,901	16,506	760,179	590,913	41,312,760
1995	30,169	1,882,803	17,744	1,948,696	41,376	1,348,484	16,695	739,576	586,379	41,857,348
Percentages										
1988	6.64	4.81	4.91	4.60	12.26	3.98	4.54	1.81	100.00	100.00
1989	6.78	5.18	3.29	3.66	11.83	4.44	3.83	1.73	100.00	100.00
1990	5.98	4.43	3.39	3.95	11.47	3.93	3.97	1.98	100.00	100.00
1991	5.36	4.65	2.51	3.64	9.87	3.57	3.76	2.05	100.00	100.00
1992	5.21	4.65	2.29	3.60	11.21	5.15	3.93	2.26	100.00	100.00
1993	5.35	4.73	2.10	3.50	9.68	2.71	3.48	2.06	100.00	100.00
1994[3]	4.73	3.64	2.35	3.42	7.67	2.45	2.79	1.73	100.00	100.00
1995	5.14	4.50	3.03	4.66	7.12	3.22	2.85	1.77	100.00	100.00

1. Classifications are based on the following standards.
   Young farmer: 35 years old or younger.
   Beginning farmer: Less than 5 years of farming experience.
   Small farmer: Farming assets less than $100,000 and agricultural sales less than $40,000.
   Young, beginning, and small farmers: All borrowers meeting at least two of the three standards.
2. Includes all farm loans made by the Farm Credit System, the majority of which are not to young, beginning, or small farmers.
3. Some of the previously published annual data have been restated to include subsequent adjustments reported to FCA.

Farm Credit System Financial Tables

The financial tables that follow were developed by the Farm Credit Administration (FCA) from Call Report data submitted by each Farm Credit System institution. The Call Report information submitted is routinely reviewed for accuracy. Although FCA believes the Call Report data are reliable, the financial data submitted by each Farm Credit System (FCS) institution and contained in the Call Reports have not been audited by FCA, nor does FCA express an opinion on their content. In addition, because of significant inter-corporate relationships that exist between and among FCS institutions, it is not possible to add financial data for each group of like institutions presented in this report and obtain data for the combined FCS.

FCA made several changes in the financial tables when compared with previous years' reports. The Banks for Cooperatives (BC) financial tables were deleted this year because only one BC existed as of year-end 1995. The Farm Credit System Banks' table contains data for the Farm Credit Banks, the Bank for Cooperatives, and the Agricultural Credit Bank on a combined basis. The Federal Land Bank Associations Combined Trends in Selected Financial Measures was deleted. One table was added: Major Financial Indicators by System, Quarterly Comparison, which exhibits data for the past five quarters for combined Farm Credit System Banks, the combined Direct Lending Associations, and the Total Farm Credit System. This table is normally found in FCA's *Risk Analysis of Farm Credit System Operations,* which this report is substituting for the quarter ending December 31, 1995.

Financial Table 1

***Major Financial Indicators by System, Quarterly Comparison*[1]**

(Dollars in Thousands)

At and for the 3 months ended	31-Dec-95	30-Sep-95	30-Jun-95	31-Mar-95	31-Dec-94
Farm Credit System Banks[2]					
Gross Loan Volume	54,346,735	53,201,916	51, 676,011	51,079,767	50,745,126
Formally Restructured Loans [3]	337,125	369,542	366,817	359,255	397,417
Accrual Loans 90 or More Days Past Due	8,767	15,166	15,683	23,541	34,741
Nonaccrual Loans	338,395	383,369	434,957	478,173	524,763
Nonperforming Loans,%[4]	1.26%	1.44%	1.58%	1.69%	1.89%
Cash and Marketable Investments	10,553,844	9,792,987	9,489,537	9,849,381	9,748,595
Total Capital/Total Assets	8.56%	8.75%	8.89%	8.79%	8.59%
Total Unallocated Retained Earnings/Total Assets	3.78%	4.27%	4.29%	4.17%	3.97%
Total Net Income	113,330	153,606	150,200	138,177	100,274
Return on Assets[5]	0.70%	0.98%	0.98%	0.92%	0.65%
Return on Equity[5]	7.94%	10.94%	10.97%	10.36%	7.32%
Net Interest Margin,%	1.73%	1.65%	1.74%	1.71%	1.72%
Operating Expense Rate[5]	0.77%	0.69%	0.76%	0.86%	0.96%
Associations Excluding Federal Land Bank Associations (FLBAs)					
Gross Loan Volume	30,920,068	30,848,576	29,941,818	28,494,368	28,785,703
Formally Restructured Loans[3]	107,942	118,727	115,871	118,089	129,624
Accrual Loans 90 or More Days Past Due	21,487	27,739	30,218	33,546	18,487
Nonaccrual Loans	462,354	529,194	515,133	531,681	513,430
Nonperforming Loans,%[4]	1.91%	2.19%	2.21%	2.40%	2.30%
Total Capital/Total Assets	17.04%	16.94%	17.20%	17.83%	17.28%
Total Unallocated Retained Earnings/Total Assets	11.76%	11.89%	11.87%	12.02%	11.51%
Total Net Income	143,010	156,259	141,248	154,954	121,289
Return on Assets[5]	1.70%	1.88%	1.80%	2.06%	1.55%
Return on Equity[5]	9.89%	11.04%	10.24%	11.53%	8.94%
Net Interest Margin,%[5]	3.65%	3.48%	3.54%	3.80%	3.54%
Operating Expense Rate[5]	2.15%	1.93%	2.00%	2.14%	2.23%
Total Farm Credit System[6]					
Gross Loan Volume	58,589,076	57,116,554	55,699,961	55,184,646	54,675,911
Formally Restructured Loans[3]	286,970	351,278	361,449	374,340	409,146
Accrual Loans 90 or More Days Past Due	28,686	41,729	45,380	57,839	30,543
Nonaccrual Loans	800,764	912,563	948,136	1,007,797	1,036,236
Nonperforming Loans,%[4]	1.91%	2.29%	2.43%	2.61%	2.70%
Total Bonds and Notes	59,777,786	58,032,026	56,201,732	56,123,221	55,793,199
Total Capital/Total Assets	13.58%	13.80%	13.90%	13.82%	13.24%
Total Surplus/Total Assets	9.20%	9.33%	9.25%	8.96%	8.68%
Total Net Income	257,797	312,953	300,057	294,203	240,112
Return on Assets[5]	1.71%	1.84%	1.79%	1.79%	1.54%
Return on Equity[5]	12.53%	13.05%	12.79%	13.12%	11.90%
Net Interest Margin	3.03%	3.00%	3.03%	3.05%	3.07%

1. Some of the previously published quarterly data have been restated to include subsequent adjustments.
2. Includes Farm Credit Banks, the Bank for Cooperatives, and the Agricultural Credit Bank.
3. Excludes loans past due 90 days or more.
4. Nonperforming Loans are defined as Nonaccrual Loans, Formally Restructured Loans, and Accrual Loans 90 or More Days Past Due and are stated as a percentage of Gross Loans Outstanding.
5. Income ratios are for the quarter and annualized.
6. Total Farm Credit System data cannot be derived through summation of above categories because of intradistrict and intra-System eliminations.

Source: Call Reports received from the Farm Credit System and Federal Farm Credit Banks Reports to Investors.

Financial Table 2
Farm Credit System Banks Combined Statement of Financial Condition[1]
(Dollars in Millions)

As of December 31	1995	1994	1993	1992	1991
Assets					
Loans	$55,231.9	$51,563.9	$51,212.6	$50,320.1	$50,247.9
Allowance for Losses	707.0	801.0	885.8	880.2	893.5
Net Loans	54,524.9	50,762.9	50,326.8	49,439.9	49,354.4
Cash and Investments in Securities	10,509.1	9,710.3	9,261.4	9,241.6	9,221.0
Other Property Owned	33.3	52.9	131.6	248.4	317.8
Other Assets–Net	686.3	647.8	662.4	702.6	857.6
Total Assets	**65,753.5**	**61,173.9**	**60,382.2**	**59,632.5**	**59,750.7**
Liabilities					
Consolidated Systemwide and Other Bonds	43,220.3	37,968.5	36,115.6	37,814.7	37,038.7
Consolidated Systemwide Notes	15,194.1	16,431.3	17,695.0	15,455.5	16,249.2
Other Liabilities	1,709.8	1,519.8	1,340.4	1,425.3	1,599.8
Total Liabilities	**60,124.2**	**55,919.6**	**55,151.0**	**54,695.6**	**54,887.7**
Net Worth					
Capital					
Capital Stock and Participation Certificates–Protected	0.5	2.7	7.1	113.8	283.0
Capital Stock and Participation Certificates–Unprotected	2,715.1	2,206.7	2,327.0	2,267.4	2,354.8
Preferred Stock–Financial Assistance Corporation	0.0	388.2	476.7	566.7	807.3
Other Capital	429.8	227.4	113.0	104.1	(115.0)
Total Capital	**3,145.4**	**2,824.9**	**2,923.8**	**3,052.0**	**3,330.1**
Earned Net Worth	2,483.9	2,429.4	2,307.3	1,884.9	1,532.9
Total Net Worth	**5,629.3**	**5,254.3**	**5,231.1**	**4,937.0**	**4,863.0**
Total Liabilities and Net Worth	**$65,753.5**	**$61,173.9**	**$60,382.2**	**$59,632.5**	**$59,750.7**

Note: Totals may not add because of rounding.
1. Includes six Farm Credit Banks, one Agricultural Credit Bank, and one Bank for Cooperatives.

Financial Table 3

Farm Credit System Banks Combined Statement of Income and Expense[1]

(Dollars in Millions)

For the Year Ended December 31	1995	1994	1993	1992	1991
Interest Income					
Loans	$3,904.4	$3,283.5	$3,167.5	$3,559.1	$4,281.5
Investments and Other	595.9	404.9	336.6	412.9	604.7
Total Interest Income	**4,500.3**	**3,688.4**	**3,504.1**	**3,972.0**	**4,886.2**
Interest Expense					
Consolidated Bonds	2,458.4	1,894.6	1,752.3	2,198.2	2,854.9
Notes and Other	996.6	709.1	521.2	627.6	971.5
Total Interest Expense	**3,455.0**	**2,603.7**	**2,273.4**	**2,825.8**	**3,826.4**
Net Interest Income	1,045.3	1,084.7	1,230.7	1,146.3	1,059.8
Less: Provision for Loan Losses	(7.8)	17.4	14.9	15.3	(103.0)
Net Interest Income after Provision for Loan Losses	1,053.1	1,067.3	1,215.8	1,131.0	1,162.8
Other Income	82.7	58.4	94.5	111.7	77.8
Operating Expenses					
Salaries and Employee Benefits	120.3	147.0	169.1	172.1	157.6
Occupancy and Equipment Expenses	27.9	32.8	38.8	40.5	43.0
Other Operating Expenses	250.7	311.0	330.0	321.1	411.9
Total Operating Expenses	**398.9**	**490.7**	**537.9**	**533.6**	**612.5**
Other Expenses	138.2	180.7	169.7	189.6	130.0
Extraordinary Items	(43.3)	(2.7)	(12.7)	(13.6)	0.6
Net Income	**$555.3**	**$451.7**	**$589.9**	**$505.8**	**$498.6**

Note: Totals may not add because of rounding.

1. Includes six Farm Credit Banks, one Agricultural Credit Bank, and one Bank for Cooperatives.

Financial Table 4

Farm Credit System Banks Combined Trends in Selected Financial Measures[1]

(Dollars in Millions)

As of December 31	1995	1994	1993	1992	1991
Loan Performance					
Performing[2]	$54,547.6	$50,607.0	$49,804.6	$48,292.3	$47,383.9
Formally Restructured[2]	337.1	397.4	490.5	696.0	1,040.2
Nonaccrual	338.4	524.8	906.7	1,323.5	1,813.7
Loans Past Due 90 Days or More	8.8	34.7	10.9	19.8	27.8
Net Chargeoffs on Loans	($7.9)	($0.8)	$6.8	$31.2	$53.1
Selected Ratios					
Return on Assets, %	0.89	0.75	1.00	0.85	0.84
Return on Equity, %	10.04	8.40	11.22	10.02	9.98
Net Interest Margin, %	1.71	1.84	2.17	2.03	1.89
Capital as a Percentage of Assets	8.56	8.59	8.66	8.28	8.14
Debt-to-Capital Ratio	10.68	10.64	10.54	11.08	11.29

1. Includes six Farm Credit Banks, one Agricultural Credit Bank, and one Bank for Cooperatives.
2. Excludes loans past due 90 days or more.

Financial Table 5

***Direct Lender Associations Combined Statement of Financial Condition*[1]**

(Dollars in Millions)

As of December 31	1995	1994[2]	1993[2]	1992	1991
Assets					
Loans	$31,627.8	$29,365.6	$26,416.2	$25,045.9	$23,816.2
Allowance for Losses	886.3	748.5	601.1	566.0	551.4
Net Loans	30,741.5	28,617.1	25,815.2	24,479.9	23,264.8
Cash and Investments in Securities	194.8	115.8	47.2	71.1	82.9
Other Property Owned	30.6	47.3	56.7	70.6	94.3
Other Assets–Net	2,397.3	2,301.9	2,250.0	1,957.9	2,085.8
Total Assets	**33,364.2**	**31,082.1**	**28,169.0**	**26,579.5**	**25,527.9**
Liabilities					
Consolidated Systemwide and Other Bonds	N/A	N/A	N/A	N/A	N/A
Consolidated Systemwide Notes	N/A	N/A	N/A	N/A	N/A
Other Liabilities	27,677.3	25,710.3	23,136.9	22,279.2	21,705.3
Total Liabilities	**27,677.3**	**25,710.3**	**23,136.9**	**22,279.2**	**21,705.3**
Net Worth					
Capital					
Capital Stock and Participation Certificates–Protected	147.8	190.0	215.3	146.2	193.6
Capital Stock and Participation Certificates–Unprotected	1,119.9	1,267.8	1,262.8	1,231.2	1,169.2
Preferred Stock–Financial Assistance Corporation	0.0	0.0	0.0	0.0	0.0
Other Capital	15.2	14.9	111.4	108.8	108.6
Total Capital	**1,282.8**	**1,472.7**	**1,589.5**	**1,486.3**	**1,471.4**
Earned Net Worth	4,404.0	3,899.2	3,442.6	2,814.0	2,351.2
Total Net Worth	**5,686.8**	**5,371.9**	**5,032.2**	**4,300.3**	**3,822.6**
Total Liabilities and Net Worth	**$33,364.2**	**$31,082.1**	**$28,169.0**	**$26,579.5**	**$25,527.9**

Note: Totals may not add because of rounding. N/A = Not applicable.

1. Includes Production Credit Associations (PCAs), Agricultural Credit Associations (ACAs), and Federal Land Credit Associations (FLCAs). Figures for 1991 through 1995 are not comparable to previous years because of mergers of Federal Land Bank Associations and PCAs into ACAs, and creation of FLCAs and downloading of farm real estate loans from Farm Credit Banks.
2. Some of the previously published annual data have been restated to include subsequent adjustments.

Financial Table 6

Direct Lender Associations Combined Statement of Income and Expense[1]

(Dollars in Millions)

For the Year Ended December 31	1995	1994[2]	1993[2]	1992	1991
Interest Income					
Loans	$2,745.6	$2,258.9	$1,997.2	$2,098.0	$2,110.5
Investments and Other	5.5	0.9	2.0	4.4	8.2
Total Interest Income	**2,751.1**	**2,259.7**	**1,999.2**	**2,102.4**	**2,118.6**
Interest Expense					
Consolidated Bonds	N/A	N/A	N/A	N/A	N/A
Notes and Other	1,690.2	1,301.2	1,146.2	1,331.2	1,496.6
Total Interest Expense	**1,690.2**	**1,301.2**	**1,146.2**	**1,331.2**	**1,496.6**
Net Interest Income	1,060.9	958.6	853.0	771.3	622.0
Less: Provision for Loan Losses	51.6	46.7	32.6	40.9	49.7
Net Interest Income after Provision for Loan Losses	1,009.3	911.9	820.4	730.3	572.3
Other Income	345.2	326.4	273.3	303.9	231.2
Operating Expenses					
Salaries and Employee Benefits	352.1	348.0	316.8	290.3	260.6
Occupancy and Equipment Expenses	45.7	42.7	38.7	35.0	32.2
Other Operating Expenses	212.1	193.3	165.4	153.1	144.6
Total Operating Expenses	**609.9**	**584.0**	**521.0**	**478.4**	**437.5**
Other Expenses	149.3	132.6	130.9	132.0	98.0
Extraordinary Items	0.2	0.0	80.6	8.0	6.2
Net Income	**$595.5**	**$521.7**	**$522.4**	**$431.8**	**$274.3**

Note: Totals may not add because of rounding. N/A = Not applicable.

1. Includes Production Credit Associations (PCAs), Agricultural Credit Associations (ACAs), and Federal Land Credit Associations (FLCAs). Figures for 1991 through 1995 are not comparable to previous years because of mergers of Federal Land Bank Associations and PCAs into ACAs, and creation of FLCAs and downloading of farm real estate loans from Farm Credit Banks.
2. Some of the previously published annual data have been restated to include subsequent adjustments.

Financial Table 7

Direct Lender Associations Combined Trends in Selected Financial Measures[1]

(Dollars in Millions)

As of December 31	1995	1994[2]	1993[2]	1992	1991
Loan Performance					
Performing[3]	$31,035.7	$28,704.1	$25,706.1	$24,117.6	$22,704.6
Formally Restructured[3]	108.1	129.6	137.1	228.3	356.0
Nonaccrual	462.4	513.4	556.5	659.9	683.4
Loans Past Due 90 Days or More	21.6	18.5	16.6	40.1	72.2
Net Chargeoffs on Loans	$3.2	$4.5	($0.4)	$7.3	$19.8
Selected Ratios					
Return on Assets, %	1.86	1.74	1.92	1.65	1.19
Return on Equity, %	10.66	9.95	11.15	10.52	7.66
Net Interest Margin, %	3.62	3.51	3.48	3.26	3.04
Capital as a Percentage of Assets	17.04	17.28	17.86	16.18	14.97
Debt-to-Capital Ratio	4.87	4.79	4.60	5.18	5.68

1. Includes Production Credit Associations (PCA), Agricultural Credit Associations (ACAs), and Federal Land Credit Associations (FLCAs). Figures for 1991 through 1995 are not comparable to previous years because of mergers of Federal Land Bank Associations (FLBAs) and PCAs into ACAs, and creation of FLCAs and downloading of farm real estate loans from Farm Credit Banks.
2. Some of the previously published annual data have been restated to include subsequent adjustments.
3. Excludes loans past due 90 days or more.

Financial Table 8

Federal Land Bank Associations Combined Statement of Financial Condition[1]

(Dollars in Millions)

As of December 31	1995	1994	1993	1992	1991
Assets					
Loans[2]	N/A	N/A	N/A	N/A	N/A
Allowance for Losses[3]	N/A	N/A	N/A	N/A	N/A
Net Loans	N/A	N/A	N/A	N/A	N/A
Cash and Investments in Securities	$447.7	$318.0	$263.9	$275.2	$ 224.7
Other Property Owned	0.0	0.0	0.0	0.0	0.0
Other Assets–Net	400.1	219.3	268.5	473.4	480.2
Total Assets	**847.8**	**537.3**	**532.4**	**748.5**	**705.0**
Liabilities					
Consolidated Systemwide and Other Bonds	N/A	N/A	N/A	N/A	N/A
Consolidated Systemwide Notes	N/A	N/A	N/A	N/A	N/A
Other Liabilities	46.6	35.5	46.0	55.0	72.1
Total Liabilities	**46.6**	**35.5**	**46.0**	**55.0**	**72.1**
Net Worth					
Capital					
Capital Stock and Participation Certificates–Protected	9.8	11.6	17.7	140.1	189.9
Capital Stock and Participation Certificates–Unprotected	164.9	188.9	200.0	216.5	229.5
Other Capital	0.0	0.0	0.0	0.0	0.0
Total Capital	**174.7**	**200.5**	**217.8**	**356.6**	**419.4**
Earned Net Worth	626.4	301.4	268.7	337.0	213.4
Total Net Worth	**801.2**	**501.9**	**486.4**	**693.5**	**632.8**
Total Liabilities and Net Worth	**$847.8**	**$537.3**	**$532.4**	**$748.5**	**$705.0**

Note: Totals may not add because of rounding. N/A = Not applicable.

1. Figures for 1991 through 1995 are not comparable to previous years because of mergers of Federal Land Bank Associations (FLBAs) and Production Credit Associations into Agricultural Credit Associations, and creation of Federal Land Credit Associations and downloading of farm real estate loans from Farm Credit Banks (FCBs).
2. The FLBAs act as agents for the FCBs (formerly Federal Land Banks) in the lending process but do not hold loans themselves.
3. FLBAs in some districts have liability for losses on FCB (formerly Federal Land Bank) loans. Because FLBAs do not make loans, the FLBA allowance for loan losses is included in FLBA liabilities.

Financial Table 9

Federal Land Bank Associations Combined Statement of Income and Expense[1]

(Dollars in Millions)

For the Year Ended December 31	1995	1994	1993	1992	1991
Interest Income					
Loans	0	0	0	0	0
Investments and Other	24.4	15.7	2.4	1.7	2.9
Total Interest Income	**24.4**	**15.7**	**2.4**	**1.7**	**2.9**
Interest Expense					
Consolidated Bonds	N/A	N/A	N/A	N/A	N/A
Notes and Other	N/A	N/A	N/A	N/A	N/A
Total Interest Expense	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Net Interest Income	24.4	15.7	2.4	1.7	2.9
Less: Provision for Loan Losses	0.0	(2.7)	(1.4)	2.1	5.3
Net Interest Income (Loss) after					
Provision for Loan Losses	24.3	18.4	3.8	(0.4)	(2.5)
Other Income	335.1	79.4	168.4	208.0	125.1
Operating Expenses					
Salaries and Employee Benefits	36.1	35.2	45.0	47.0	60.6
Occupancy and Equipment Expenses	4.7	4.9	5.9	6.3	8.0
Other Operating Expenses	14.8	15.9	22.0	24.4	31.1
Total Operating Expenses	**55.7**	**56.0**	**73.0**	**77.7**	**99.6**
Other Expenses	0.1	0.1	0.1	0.0	5.2
Extraordinary Items	0.0	0.0	(0.4)	(0.6)	0.0
Net Income	**$303.7**	**$41.8**	**$98.8**	**$129.2**	**$17.8**

Note: Totals may not add because of rounding. N/A = Not applicable.

1. Figures for 1991 through 1995 are not comparable to previous years because of mergers of Federal Land Bank Associations and Production Credit Associations into Agricultural Credit Associations, and creation of Federal Land Credit Associations and downloading of farm real estate loans from Farm Credit Banks.

Additional Information

This report is published in accordance with Section 5.17(a)(3) of the Farm Credit Act of 1971, as amended. Further discussion of the financial condition and performance of the Farm Credit System (FCS) may be found in the Farm Credit Administration report, *Risk Analysis of Farm Credit System Operations*, published for the quarters ended March 31, June 30, and September 30.

The report for the quarter ended December 31 has been discontinued. Information previously contained in that report is now published as part of the *Farm Credit Administration Annual Report on the Financial Condition and Performance of the Farm Credit System*. A discussion of the performance and financial condition of the Farm Credit Administration may be found in the *Farm Credit Administration Annual Report*. Depending on availability, these publications may be obtained without charge from:

Office of Congressional and
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Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090
Telephone (703) 883-4056
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Disclosure to investors in Farm Credit System securities is made by the Federal Farm Credit Banks Funding Corporation through annual and quarterly information statements, published as part of the *Report to Investors*, and through its *Summary Report of Condition and Performance of the Farm Credit System*, published quarterly. Copies of these reports are available from:

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